BOSNIA AND HERZEGOVINA
FEDERATION OF BOSNIA AND HERZEGOVINA
BANKING AGENCY OF THE FEDERATION OF BOSNIA AND HERZEGOVINA

INFORMATION
ON THE BANKING SYSTEM OF THE FEDERATION OF BOSNIA AND HERZEGOVINA AS OF 30. 06. 2011.

Sarajevo, August 2011.

Information on banking system of the Federation of BiH (as of 31.03.2011., based on final, unaudited data) is prepared by the Banking Agency of the Federation of BiH, as a regulatory authority conducting supervision of banks, based on reports of banks, and other information and data submitted by banks. Findings and data from on-site examinations and analysis performed at the Agency (off-site financial analysis) have also been included.

I INTRODUCTION

In 2010, the negative economic movements were blocked and there happened a slight recovery of the economic activities in the real sector. The growth and development of the banking sector that was stopped, since the second half of 2010 has been recording a slight growth of the credit activity, which continued in the first half of 2011, and the negative trends of the asset quality decline and its deterioration from the previous periods have significantly been alleviated.

As of 30.06.2011., there were 19 banks with banking license issued in the Federation of BiH, of which 2 banks were under provisional administration (Hercegovačka bank d.d. Mostar and Postanska bank BH d.d. Sarajevo). As of 30.06.2011., the number of employees in the banking sector was 7.365, which is by 0,3% or 23 employees less than as of 31.12.2010.

The aggregate balance sheet of the banking sector, as of 30.06.2011., amounted to 15,13 billion KM, representing a minor increase of 51 million KM compared to the end of 2010. The slight credit growth from the previous three quarters of 2010 and the first quarter of 2011 continued in the second quarter of 2011, which is an encouraging indicator of the banks' credit activity. As of 30.06.2011 the loans reached the amount of 10,27 billion KM and are by 3% or 291 million KM higher than in comparison to the end of 2010. From the aspect of the sectors to which the bank granted loans, the trend in the first half of 2011 can be rated as positive due to increase of loans to private companies, as well as a slight incline of placements to citizens, after they recorded a decline in 2010 and in the first quarter of 2011.

In the first half of 2011, the assets structure had changes related to two key property items: increase of the credit participation from 66,2% to 67,9% and decrease of the cash funds from 29,5% to 27,4%.

In the assets structure the cash funds present 4,1 billion KM and they declined by 7% or 304 million KM in comparison to the end of 2010, mostly due to increase of the credit placements.

In the reviewed period in 2011 there were insignificant changes in the participation of two important funding sources: deposits and credit liabilities, that is a decline of the participation of deposits from 74,5 to 74,2%, and credit liabilities from 9,3% to 9,1%. The deposits in the amount of 11,23 billion KM are still the dominant source of financing for banks in the Federation of FBiH, and they insignificantly declined by 1,6 million KM in relation to 2010.

Savings deposits, as the most significant segment of deposit and financial potential of banks, maintained the positive growth trend in the first two quarters of 2011 with a rate of 3% or 143 million KM and as of 30. 06. 2011 they were 5,12 billion KM, which is the highest amount up to date.

In the first half of 2011 the regulatory and net capital remained at almost the same level of two billion KM, that is it decreased for only nine million KM in relation to the end of 2010. As of 30.06.2011., the banking system capital adequacy rate, as one of the most important indicators of strength and adequacy of banks' capital, is 15,6%, which is by 0,6% less than at the end of 2010, but still significantly over the legal minimum (12%) and it presents a satisfactory capitalization of the overall system and a strong base and foundation for maintaining its security and stability.

At the level of the banking system of F BiH in the first half of 2011, positive financial result was realized in the total amount of 47,7 million KM, while in the same period in 2010 a loss was realized in the amount of 67,7 mill. KM. Positive financial result of 64,8 mill.KM was realized by 13 banks, while 6 banks realized losses in performance in the amount of 17,1 mill. KM.

II BUSINESS PERFORMANCES OF BANKS IN THE FEDERATION OF BIH

1. STRUCTURE OF THE BANKING SECTOR

1.1. Status, number and business network

As of 30.06.2011., there were 19 banks with the banking license issued in the Federation of BiH. Number of banks is the same as of 31.12.2010. There is a special law regulating establishment and work of the Development Bank of the Federation of BiH, Sarajevo which is a legal successor of the Investment Bank of the Federation of BiH d.d., Sarajevo, as of 01.07.2008.

As of 30.06.2011., there were two banks under provisional administration (Hercegovačka banka d.d. Mostar and Postanska banka BH d.d. Sarajevo).

In the first half of 2011., there was no significant expansion of the banks' organizational units' network. There were established ten new organizational units. Simultaneously, some banks closed their organizational units, that is they performed reorganization and merger of their organizational parts with an aim to rationalize their expenses, so as of 30. 06. 2011., the banks from the Federation of BiH have a total of 611 organizational units. In relation to 31. 12. 2010 when the banks had 600 organizational units, the listed presents an increase of 1,8%.

As of 30.06.2011., seven banks from the Federation of BiH had 56 organizational units in the Republic Srpska and nine banks had 12 organizational units in District Brcko. Five banks from the Republic Srpska had 22 organizational units in the Federation of BiH. The only change was in the number of organizational units of banks from Federation of BiH on the territory of the Federation of BiH.

As of 30.06.2011., all the banks had the license for inter-bank transactions in the internal payment system and 15 banks were under the deposit insurance program.

1.2. Ownership structure

As of 30.06.2011., ownership structure in banks[1] based on the available information and on-site visits to banks[2] is the following:

- Private and majority private ownership 18 banks (94,7%)
- State and majority state ownership[3] 1 banks (5,3%)

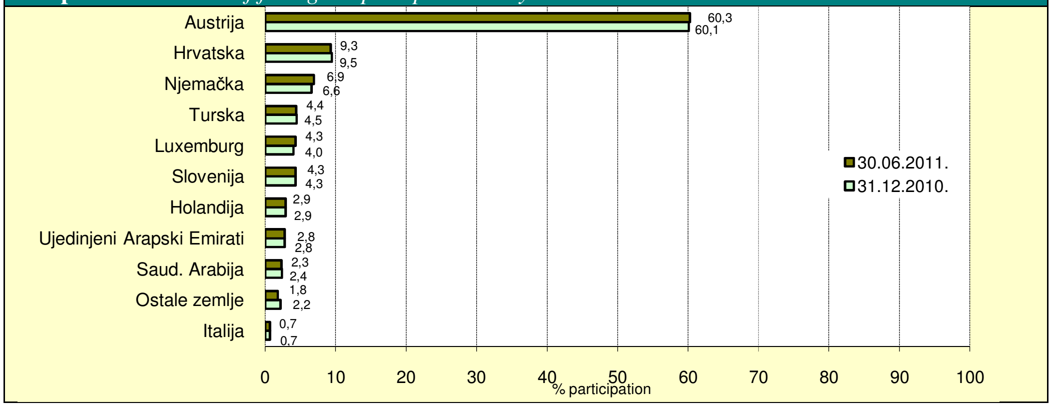
Seven banks, of 18 banks with majority private ownership, are majority owned by domestic legal entities and individuals (residents), while 11 banks have majority foreign ownership.

If only foreign capital is analyzed based on the criteria of the shareholders' home country, as of 30.06.2011., the condition is the same as at the end of 2010: shareholders from Austria owned

[1] A bank classification criterion is ownership over banks' share capital.
[2] The ownership structure of banks in the FBiH, as of 30.06.2011., resulted from received documentation and registrations at authorized courts (changes in capital and shareholders structure).
[3] State ownership refers to domestic state capital of BiH.

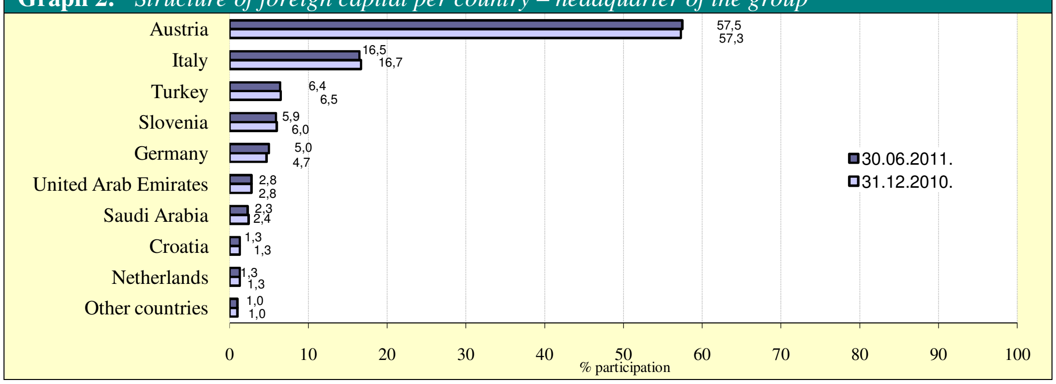
60,3% of foreign capital, the shareholders from Croatia owned 9,3% of foreign capital, while other countries participated less than 7%.

Graph 1: *Structure of foreign capital per country*



However, if capital correlations are taken into account the structure for foreign capital could be viewed according to the criteria of the parent-bank or the group's headquarter that has majority ownership (directly or indirectly over the group members) of the bank in the Federation of BiH. According to these criteria, the situation also just slightly changed in relation to the end of 2010: banking group and banks from Austria with participation of 57,5%, banks from Italy with participation of 16,5%, while other countries participate below 6,5%.

Graph 2: *Structure of foreign capital per country – headquarter of the group*[4]



The ownership structure could be viewed from the aspect of financial indicators, which is based on the value of total capital[5].

[4] Apart from the country of the headquarters of the parent-group whose members are the banks from the F BiH, the countries of all other shareholders of the banks from the F BiH are also included.

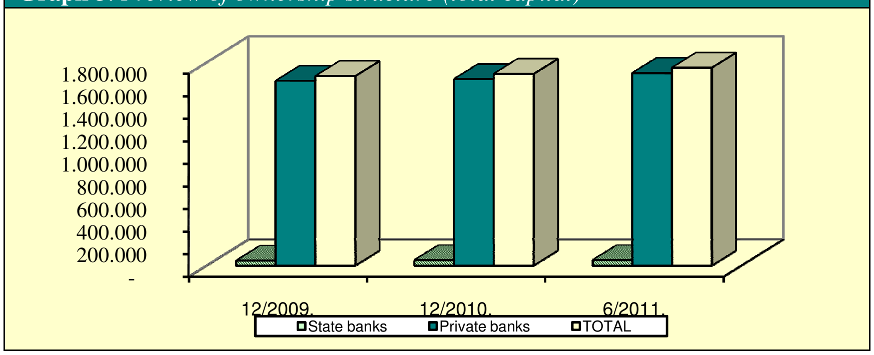
[5] Information from balance sheet – FBA schedule: shareholder's capital, premium issue, undistributed profit and reserves, and other capital (financial results of current period).

- in 000 KM-

Table 1: *Ownership structure by total capital*

BANKS	31.12.2009.		31.12.2010		30.06.2011.		RATIO 3/2	RATIO 4/3
1	2		3		4		5	6
State banks	41.736	2%	46.586	3%	46.885	3%	112	101
Privates banks	1.635.962	98%	1.650.039	97%	1.704.732	97%	101	103
TOTAL	1.677.698	100%	1.696.625	100%	1.751.617	100%	101	103

Graph 3: *Preview of ownership structure (total capital)*



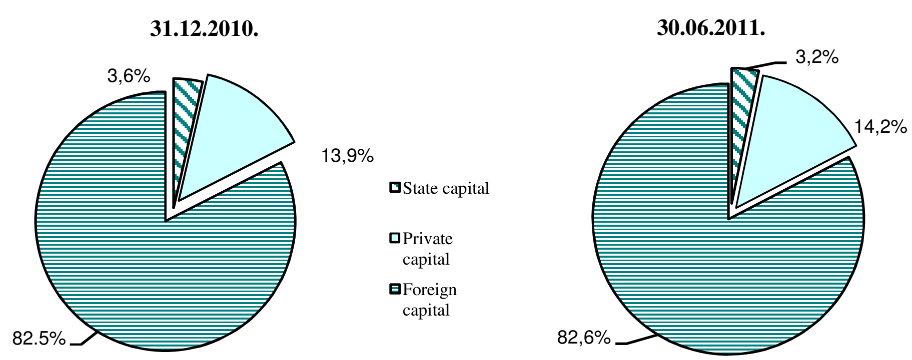
Analysis of participation by state, private and foreign capital in the share capital of banks shows more precise picture of the capital ownership structure in banks of the Federation of BiH.

- in 000 KM-

Table 2: *Ownership structure by participation of state private and foreign capital*

SHARE CAPITAL	31.12.2009. Amount	31.12.2009. Participation %	31.12.2010. Amount	31.12.2010. Participation %	30.06.2011. Amount	30.06.2011. Participation %	RATIO 5/3	RATIO 7/5
1	2	3	4	5	6	7	8	9
State capital	41.860	3,6	41.860	3,6	38.072	3,2	100	91
Private capital (residents)	153.365	13,1	163.074	13,9	169.400	14,2	106	101
Foreign capital (nonresident)	975.943	83,3	968.363	82,5	982.476	82,6	99	101
TOTAL	1.171.168	100,0	1.173.297	100,0	1.189.948	100,0	100	101

Graph 4: *Ownership structure (share capital)*



The share capital of banks in the Federation of BiH, in the first half of 2011., was higher by 16,7 million KM or 1,4% in relation to 31.12.2010. The structure of the shareholder's capital slightly changed: the state capital decreased by 3,8 million KM, private capital (resident) increased by 6,3 million KM, and private (nonresident) capital increased by 14,1 million KM.

Analysis of the banks' ownership structure shows, in the most explicit way, from the aspect of share capital, the changes and trends in the banking system of the FBiH, and especially the changes of the ownership structure.

Participation of the state capital in total share capital, as of 30.06.2011., was 3,2%, and it decreased by 0,4% in relation to 31.12.2010.

Participation of private capital (residents) in total share capital of 14,2% is representing a 0,3 per cent increase in comparison to the end of 2010. Nominal increase of 6,3 million KM was based on the increase in trading with state owned capital in banks, and slightly due to trading with non-residents, in seven banks in the net amount of 4,5 million KM, while the shareholders capital of one bank increased by 1,8 million KM through internal additional capitalization (from reserves).

Participation of foreign capital (nonresidents) in total share capital has increased by 14,1 million KM or 0,1% percent points in comparison to 31.12.2010. This increase was due to the new emissions of the shares in two banks, and in small part based on the turnover with residents in seven banks.

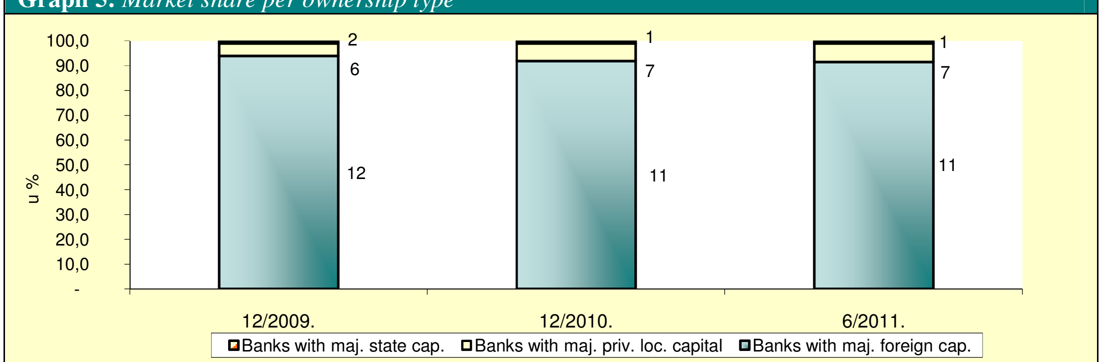
As of 30.06.2011., the market share of banks with majority foreign ownership was a high 91,5%, of banks with majority domestic private capital was 7,4%, and the share of banks with majority state capital was 1,1%.

- in %-

Table 3: *Market share of banks per ownership type (majority owned capital)*

BANKS	31.12.2009.			31.12.2010.			30.06.2011.		
	No. of banks	Partic. in total capital	Partic. in total assets	No. of banks	Partic. in total capital	Partic. in total assets	No. of banks	Partic. in total capital	Partic. In total assets
1	2	3	4	5	6	7	8	9	10
Banks with majority state capital	2	2,5	1,1	1	2,7	1,1	1	2,7	1,1
Banks with majority private domestic capital	6	10,7	5,0	7	12,2	7,0	7	11,5	7,4
Banks with majority foreign capital	12	86,8	93,9	11	85,1	91,9	11	85,8	91,5
TOTAL	20	100,0	100,0	19	100,0	100,0	19	100,0	100,0

Graph 5: *Market share per ownership type*



1.3. Employees

As of 30.06.2011., there were a total of 7.365 employees in the banks of the Federation of BiH, of that number 2% is in the banks with a majority state capital and 98% in private banks.

Table 4: *Bank employees in the FBiH*

B A N KS	NUMBER OF EMPLOYEES						RATIO	
	31.12.2009.		31.12.2010.		30.06.2011.		3:2	4:3
1	2		3		4		5	6
State banks	231	3%	180	2%	180	2%	78	10
Private banks	7.425	97%	7.208	98%	7.185	98%	97	100
TOTAL	7.656	100%	7.388	100%	7.365	100%	97	100
Number of banks	20		19		19		95	100

The decreasing trend of the numbers of employees as one of the consequences of the adverse effects of the economic crisis on the banking sector in the first half of 2011 almost was stopped, the number of employees decreased by 0,3% or 23 employees, which is a result of a significant decrease in one larger bank, where the number of employees decreased by 10%, that is 52 employees. As of 30.06.2011 nine banks increased the number of employees (86 employees), and the same number of banks have decreased the number of employees (109 employees).

Table 5: *Qualification structure of employees*

EDUCATION	NUMBER OF EMPLOYEES						RATIO	
	31.12.2009.		31.12.2010.		30.06.2011.		4:2	6:4
1	2	3	4	5	6	7	8	9
University qualifications	3.104	40,5%	3.234	43,8%	3.314	45,0%	104	102
Two-year post secondary school qualifications	774	10,1%	696	9,4%	698	9,5%	89	100
Secondary school qualifications	3.719	48,6%	3.406	46,1%	3.310	45,0%	92	97
Other	59	0,8%	52	0,7%	43	0,5%	88	83
TOTAL	7.656	100,0%	7.388	100,0%	7.365	100,0%	97	99

The trend of improvement of the qualification structure of employees through the increase of participation of employees with higher education also continued in the first half of 2011., and the negative of the decrease of the number of employees, mostly with high school diploma, had a positive impact on the change of the qualification structure.

One of the indicators influencing an evaluation of performance of a respective bank and the banking system, and the banking system, is effectiveness of employees and it is shown as a ratio of the assets and the number of employees, that is, the amount of assets per an employee. The higher ratio, the better the performance effectiveness of both the bank and the entire system

Table 6: *Assets per employee*

BANKS	31.12.2009.			31.12.2010.			30.06.2011.		
	No. of empl.	Assets (000 KM)	Assets per empl.	No. of empl.	Assets (000 KM)	Assets per empl.	No. of empl.	Assets (000 KM)	Assets per empl.
State	231	161.619	700	180	167.263	929	180	172.619	959
Private	7.425	15.074.741	2.030	7.208	14.908.434	2.068	7.185	14.954.398	2.081
TOTAL	7.656	15.236.360	1.990	7.388	15.075.697	2.041	7.365	15.127.017	2.054

At the end of the reviewed period, there was a two million KM assets per employee on the level of the banking system. The increase of the indicators for the majority state capital is a consequence of the decrease of the number of employees.

Table 10: *Assets per employee by groups*

Assets (000 KM)	31.12.2009. Number of banks	31.12.2010. Number of banks	31.03.2011. Number of banks
Up to 500	1	0	0
500 to 1.000	8	7	5
1.000 to 2.000	5	6	8
2.000 to 3.000	5	5	5
Over 3.000	1	1	1
TOTAL	20	19	19

The analytical indicators for individual banks are within the range from 589 thousand KM to 3,1 million KM of assets per employee. Six banks have this indicator better than what it is for the sector, and for three largest banks in the system it is over the amount of 2,5 million KM.

2. FINANCIAL INDICATORS OF BANKS' PERFORMANCES

Examination of banks based on reports is performed through using the reports prescribed by the FBA and the reports of other institutions creating a database constructed of three sources of information:

1. Information on balance sheet for all banks submitted monthly, including quarterly attachments, containing more detailed information on funds, loans, deposits and off-balance sheet items, and some general statistic information,
2. Information on bank solvency, data on capital and capital adequacy, asset classification, concentrations of certain types of risks, liquidity position, foreign exchange exposure, based on the reports prescribed by the FBA (quarterly),
3. Information on performance results of banks (income statement – FBA format) and cash flow reports submitted to the FBA quarterly.

Aside from the mentioned standardized reports, the database includes the information obtained from additional reporting requirements prescribed by the FBA in order to have the best conditions for monitoring and analysis of banks' performance in the Federation of BiH. The database also includes audit reports of financial statements of banks prepared by independent auditor, as well as all other information relevant to the assessment of performances of individual banks and the entire banking system.

In accordance with the provisions of Law on Opening Balance Sheet of Banks, banks with majority state owned capital have to report to the FBA "full" balance sheet divided into: passive, neutral and active sub-balance sheet. In order to obtain realistic indicators of banks' performance in the Federation of BiH, all further analysis of the banking system will be based on the indicators from the active sub-balance sheet of banks with majority state owned capital[6].

2.1. Balance Sheet

Aggregate balance sheet of the banking sector, as of 30.06.2011., amounted to 15,13 billion KM, which is for an insignificant 51 million KM more than at the end of 2010. It is evident that the impact of the financial crises on the banking sector in FBiH is still strong, the development and growth of the overall sector has been stopped for a longer period of time, but the stagnation

[6] Some state banks in their "full balance sheet" report passive and neutral items, which will be taken over by the state upon finalization of the privatization process. As of 30.06.2011., these items amounted to KM 637 million.

present in the last three quarters can still be evaluated as positive, since the negative trends from the period after the crises up to the first half of 2010 have been significantly alleviated.

Table 8: *Balance Sheet*

DESCRIPTION	AMOUNT (IN 000 KM) 31.12.2009. AMOUNT	Partic. %	31.12.2010. AMOUNT	Partic. %	30.06.2011. AMOUNT	Partic. %	RATIO 3/2	RATIO 4/3
1	2		3		4		5	6
ASSETS:								
Cash funds	4.782.301	27,9	4.443.614	29,5	4.140.085	27,4	93	93
Securities[7]	119.157	0,1	375.252	2,4	418.200	2,8	315	111
Placements to other banks	111.019	0,6	145.007	1,0	190.274	1,3	131	131
Loans	9.796.800	69,2	9.981.911	66,2	10.273.133	67,9	102	103
Loan loss provisions (LLP)	458.803	2,5	635.792	4,2	672.488	4,4	139	106
Loans – net value (loans minus LLP)	9.337.997	66,7	9.346.119	62,0	9.600.645	63,5	100	103
Business premises and other fixed assets	528.910	3,1	552.764	3,7	549.823	3,6	105	99
Other assets	356.976	1,6	212.941	1,4	227.990	1,4	60	107
TOTAL ASSETS	**15.236.360**	**100,00**	**15.075.697**	**100,00**	**15.127.017**	**100,00**	**99**	**100**
LIABILITIES								
LIABILITIES								
Deposits	11.045.868	69,4	11.232.830	74,5	11.231.227	74,2	102	100
Borrowings from other banks	3.089	0,0	7.000	0,0	2.000	0,0	227	29
Loan Commitments	1.771.978	14,4	1.403.451	9,3	1.378.132	9,1	79	98
Other liabilities	737.727	5,3	735.791	4,9	764.041	5,1	100	104
CAPITAL								
Capital	1.677.698	10,9	1.696.625	11,3	1.751.617	11,6	101	103
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	**15.236.360**	**100,0**	**15.075.697**	**100,00**	**15.127.017**	**100,00**	**99**	**100**

Table 9: *Assets of banks based on the ownership structure*

BANKS	31.12.2009. No. banks	Assets (000 KM)		31.12.2010. No. banks	Assets (000 KM)		30.06.2011. No. banks	Assets (000 KM)		RATIO 5/3	RATIO 7/5
1	2	3		4	5		6	7		8	9
State	2	161.619	1%	1	167.263	1%	1	172.619	1%	103	103
Private	18	15.074.741	99%	18	14.908.434	99%	18	14.954.398	99%	99	100
TOTAL	20	15.236.360	100%	19	15.075.697	100%	19	15.127.017	100%	99	100

The analytical data on the fluctuations of the banks' assets indicates that almost the same number of banks had a downfall, that is the incline of the aggregate balance sheet: the assets of 10 banks is higher than in relation to the end of 2010, with low growth rate (up to 5%), while in the remaining nine banks the level of assets declined, and the decreasing rates were between 2% and 6%.

Indicator of concentrations in the three most significant segments of banking performance, in assets, loans and deposits is the value of the Herfindahl index[8].

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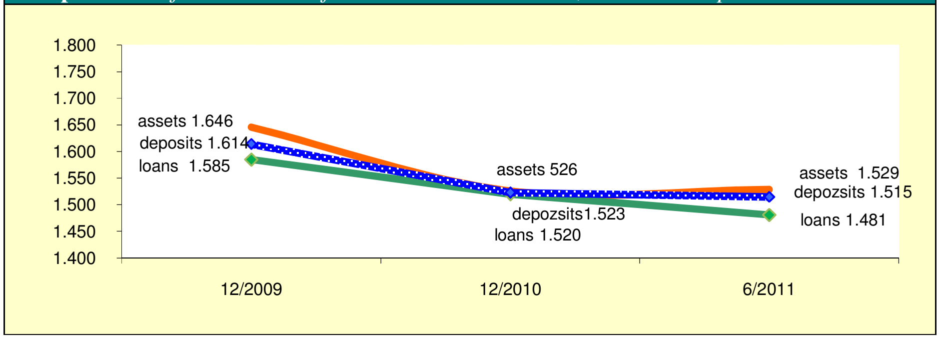
[7] Trading securities and securities held to maturity.

[8] It is also called the Hirschmann-Herfindahl index or HHI as calculated in the formula $HI = \sum_{j=1}^{n} (S)_j^2$, representing the sum of square of percentage shares of concrete values (e.g. assets, deposits, loans,…) of all market participants in the system. We should mention that the index is not linearly increasing, and the value of e.g. 3000 does not mean the concentration in the system is 30%. Hypothetically, if there is only one bank in the system, the HHI would be maximum at 10000.

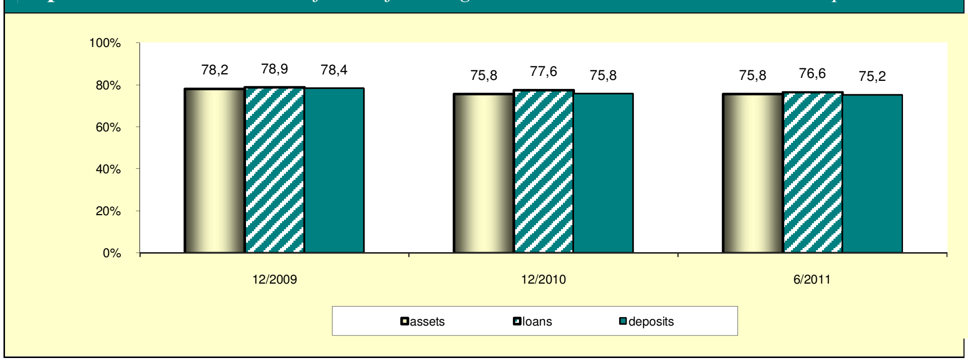
Graph 10*: Herfindahl index of concentrations in assets, loans and deposits*



At the end of the first half of 2011, the Herfindahl index in all three relevant categories (loans, deposits and assets) recorded insignificant changes in value: assets 1.529 units, loans 1.481 and deposits 1.515, indicating a moderate concentration[9]. In comparison to the end of 2010, the indicator for assets increased (by three units), and for deposits and loans declined (by eight and 39 units).

Another indicator of concentration in the banking system is the ratio of market concentration, that is the concentration rate[10] (hereinafter: CR), which indicates the total market participation of the largest institutions in the system per relevant chosen categories: assets, loans and deposits. The CR5 for market participation and deposits of the five largest banks in the system, at the end of the first half of 2011., was 75,8 percent points, the same as at the end of 2010, for loans it declined from 77,6% to 76,6%, and for deposits from 75,9 to 75,2%. In the past two years the CR value has slightly declined in all three categories, but there is still an evident dominance of five largest banks in the system that "hold" approximately 76% of the market, loans and deposits

Graph 7: *Concentration rates for the five largest banks-CR5: assets, loans and deposits*



The banking sector could be analyzed from the aspect of several groups established according to the asset size[11]. The minor changes in relation to the end of 2010 refer to the number of banks and participation of certain groups which is a result of changes of assets in several banks.

[9] If the HHI value is below 1000, the opinion is that there is no concentration in the market; for the index value between 1000 and 1800 units, concentration in the market is moderate; and if the HHI value exceeds 1800, it indicates high concentration.

[10] Engl.: concentration ratio (CR), assigned to the number of institutions inlcuded in the calculation.

[11] Banks are divided into five groups depending on the assets size.

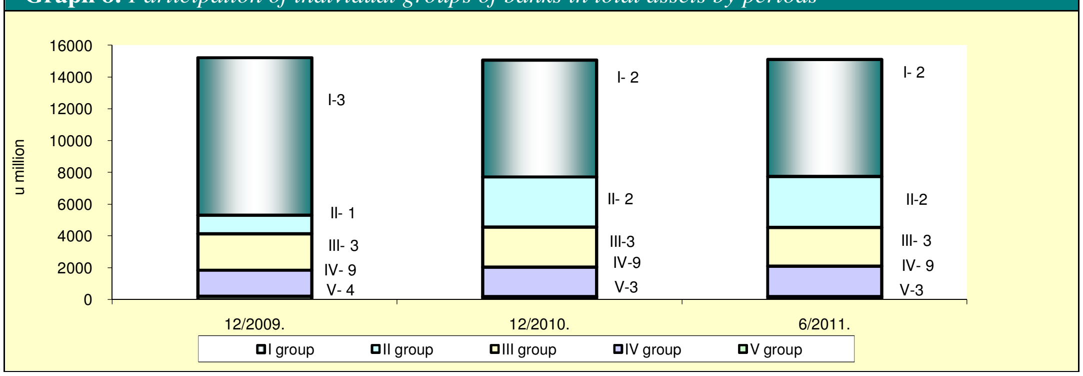
Two banks from Group I (assets higher than three billion KM) still have a high market participation of almost 50%, and if included are two banks from the group II (with assets between one and two billion) the participation of four largest banks is 70%. The remaining 15 banks 'hold' 30% of the market, of which three banks from the group III (assets between 500 million KM and one billion KM) have a participation of 16,1%, while the group IV has the largest number of banks – nine (assets between 100 and 500 million KM) and participation of 12,7%. The last V group (three banks with asses lower than 100 million KM), maintained the low participation of 1,3%.

The following table presents a preview of amounts and participations of individual groups of banks in total assets by periods (amounts presented in KM millions).

Table 10: *Participation of individual groups of banks in total assets through periods*

ASSETS	31.12.2009.			31.12.2010.			30.06.2011.		
	Amount	Partic. %	No. of banks	Amount	Partic. %	No. of banks	Amount	Partic. %	No. of banks
I- Over 2.000	9.912	65,1	3	7.348	48,8	2	7.371	48,7	2
II- 1000 to 2000	1.165	7,6	1	3.146	20,9	2	3.206	21,2	2
III- 500 to 1000	2.293	15,1	3	2.521	16,7	3	2.430	16,1	3
IV- 100 to 500	1.648	10,8	9	1.862	12,3	9	1.924	12,7	9
V- Under 100	218	1,4	4	199	1,3	3	196	1,3	3
TOTAL	15.236	100,0	20	15.076	100,0	19	15.127	100,0	19

Graph 8: *Participation of individual groups of banks in total assets by periods*



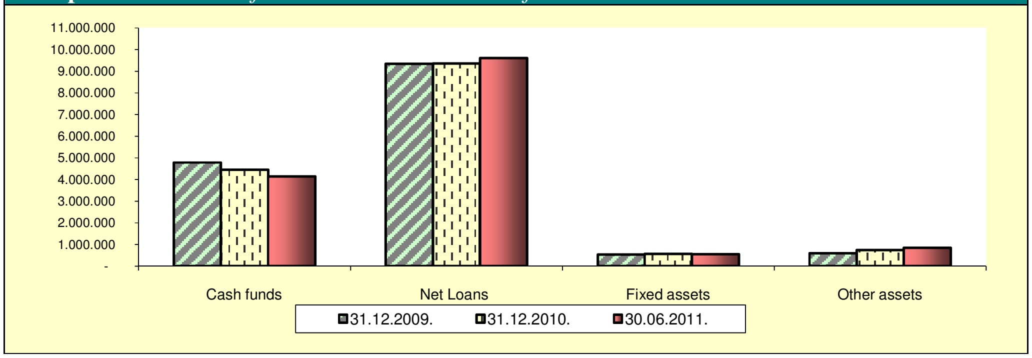
At the end of the first half of 2011., the aggregate balance sheet remained at the same level as at the end of 2010., that is it increased by a minor 51 million KM. The most important liability items: deposits, credit liabilities and total capital had the same minimal changes, the deposits remained at the level from the end of 2010, while the loan liabilities decreased by 2% or 25 million KM, and capital increased by 3% or 55 million KM.

In the assets, cash funds (in the amount of 4,1 billion KM) are lower by 7% or 304 million than in comparison to the end of 2010, mostly due to increase of loan placements by 3% or 291 million KM.

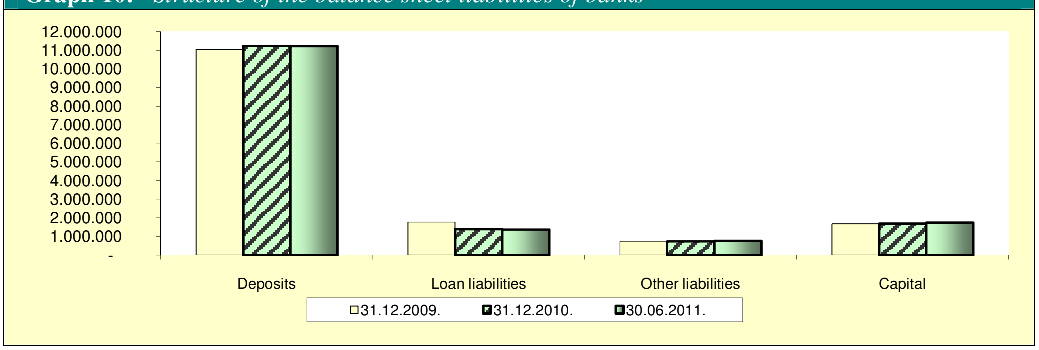
A slight credit growth from the last three quarters of 2010., continued in the second quarter of 2011., which is encouraging and it is an indicator of intensifying the credit activities of banks. After the quarterly increase of 140 million KM (I quarter) and 151 million KM (II quarter), the loans as of 30.06.2011 reached the amount of 10,27 billion KM.

The following table and graph present the structure of the most significant balance sheet positions of banks.

Graph 9: *Structure of the balance sheet assets of banks*



Graph 10: *Structure of the balance sheet liabilities of banks*



In the structure of banks' balance sheet, deposits in the amount of 11,2 billion KM and participation of 74,2% are still the dominant source of financing for banks in the Federation of BiH. After a slight decrease of 0,2%, the participation of loan obligations was 9,1%, and capital increased from 11,3% to 11,6.

The structure of assets, as well as the structure of sources, had slight changes related to two key assets items: increased participation of loans from 66,2% to 67,9% and a decrease of cash funds from 29,5% to 27,4%

- in 000 KM-

Table 11: *Banks' cash funds*

CASH FUNDS	31.12.2009.		31.12.2010.		30.06.2011.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Cash	355.419	7,4	370.414	8,3	367.424	8,9	104	99
Reserve accounts with CBBiH	2.455.505	51,4	2.592.920	58,4	2.321.564	56,1	106	90
Accounts with deposit institutions in BiH	441	0,0	670	0,0	18.829	0,4	152	2810
Accounts with deposit institutions abroad	1.970.473	41,2	1.479.322	33,3	1.431.735	34,6	75	97
Cash funds in collection process	463	0,0	288	0,0	533	0,0	62	185
TOTAL	4.782.301	100,0	4.443.614	100,0	4.140.085	100,0	93	93

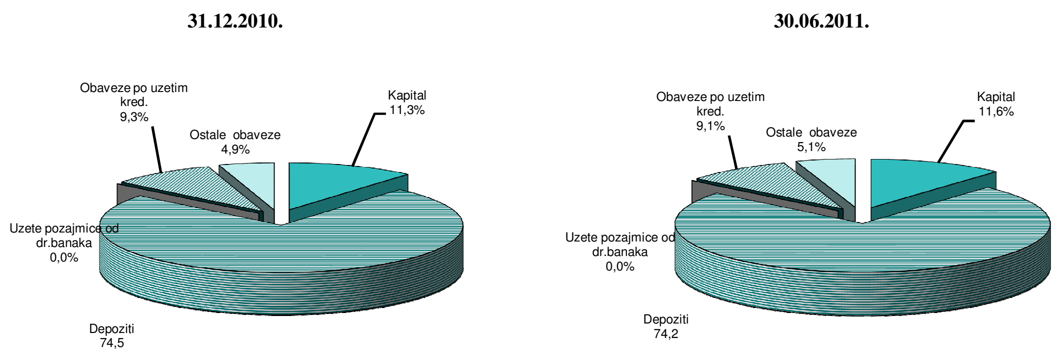
Cash funds of the banks on the reserve accounts of CBBiH, in the first quarter of 2011, decreased by 10% or 271 million KM, amounting to 2,32 billion KM or 56,1% of total cash funds as of 30.06.2011., representing the participation decrease of 2,3 per cent in relation to the end of 2010. Banks' funds on the accounts with the depository institutions abroad have decreased by a 3% or 48 million KM, amounting to 1,43 billion KM or 34,6% of total cash funds (33,3% at the end of 2010). As of 30.06.2011 the banks have had, as at the end of 2010, cash on hand and in vaults in the amount of 367 million KM, representing 8,9% of total cash funds.

The listed fluctuations had a significant impact on the change of the currency structure of the cash funds: the domestic currency participation in the reviewed period decreased from 63,7% to 62,3%, while the participation of funds in foreign currency has increased by the same amount of change.

2. 1. 1. Liabilities

Structure of liabilities (liabilities and capital) in the balance sheet of banks, as of 30.06.2011. is presented in the following graph:

Graph 11: *Liabilities structure of banks*



In the first half of 2011, there were minor changes in participation of the two most important banks' financing sources: deposits and credit obligations, that is decrease of deposit participation from 74,5% to 74,2%, and credit liabilities from 9,3% to 9,1%.

Deposits participating with 74,2% or 11,23 billion KM still represent the most significant funding source of banks in the Federation of BiH. Second source, per its size are credit funds in the amount of 1,38 billion KM obtained by banks mostly through the debt with foreign financial institutions. During the last two years, due to the impact of the financial and economic crises, the banks had far less lending from abroad, and with the payment of the past due liabilities these sources decreased significantly. In the first half of 2011 the downfall was stopped 2% or 25 million KM. If subordinate debts of 148 million KM, which were withdrawn by banks to strengthen capital base and capital adequacy, are added to credit liabilities then the participation of total credit funds in the sources would be 10,1% .

Capital, as of 30.06.2011, was 1,75 billion KM, which is by 3% or 55 million KM higher than at the end of 2010, and the growth was realized exclusively on the basis of the current financial result-profit and additional capitalization of two banks.

As of 30.06.2011., the highest bank commitments were towards the following creditors (eight of total 42), representing 72% of total credit commitments: European Investment Bank (EIB), Central Eastern European Finance Agency (CEEFA), EBRD, European fund for Southeast Europe (EFSE), UniCredit Bank Austria AG, ComercBank AG Frankfurt, Council of Europe Development Bank and Raiffeisen Zentralbank Osterreich A.G. (RZB).

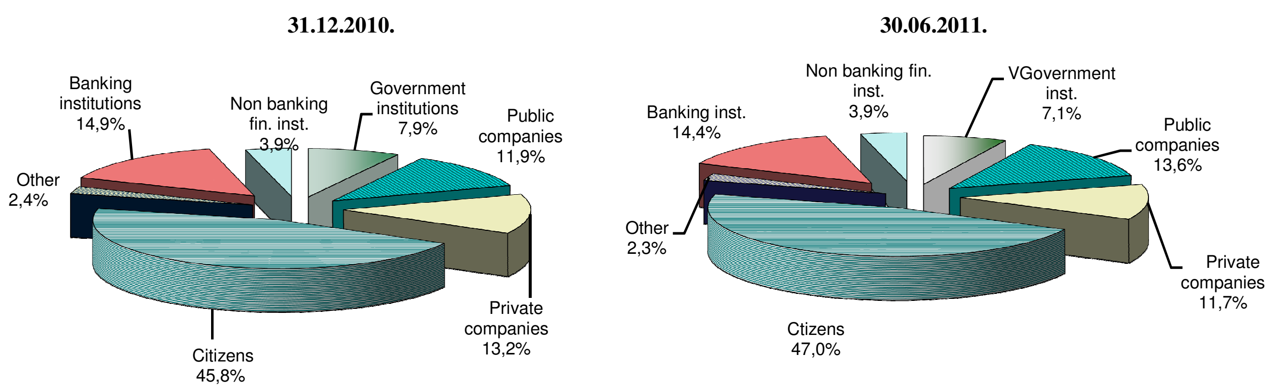
According to the data submitted by banks, out of total deposits as of 30.06.2011., only 6,3% were deposits collected by organizational units of banks from the Federation of BiH operating in Republic Srpska and Brcko District.

- in 000 KM-

Table 15: *Deposit structure by sectors*[12]

DEPARTMENTS	31.12.2009.		31.12.2010.		30.06.2011.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Governmental institutions	839.926	7,6	891.638	7,9	794.202	7,1	106	89
Public enterprises	1.400.839	12,7	1.332.748	11,9	1.521.362	13,6	95	114
Private enterprises and assoc.	1.403.465	12,7	1.487.509	13,2	1.318.688	11,7	106	89
Non-profit. organizations	2.120.143	19,2	1.674.576	14,9	1.619.451	14,4	79	97
Banking institutions	509.769	4,6	432.045	3,9	441.392	3,9	85	102
Citizens	4.506.881	40,8	5.144.607	45,8	5.276.667	47,0	114	103
Other	264.845	2,4	269.707	2,4	259.465	2,3	102	96
TOTAL	11.045.868	100,0	11.232.830	100,0	11.231.227	100,0	102	100

Graph 12: *Deposit structure by sectors*



In the first half of 2011, there were minor changes in the deposit sector structure, which on one side, are a result of decrease of funds of private companies, government and banking institutions, and on the other hand, growth of deposits of citizens and public companies.

Deposits of the citizens sector continued their increase in 2011., and the realized growth rate of 3% or 132 million KM. The deposits of this sector with the amount of 5,28 billion KM and participation of 47% in total deposits still are the largest financing source for banks in F BiH

The deposits of the banking institutions, which are the second highest source in the deposit potential of the sector, in the observing period decreased by 3% or 55 million KM and as of 30.06.2011., were 1,62 billion KM, which is 14,4% of total deposits. These funds are by 241

[12] Information from the attached form BS-D, submitted by banks with balance sheet - FBA format each quarter.

million KM higher than the credit liabilities (at the end of 2010 the difference was 271 million KM), which, after the deposits are the second most important financing source for banks in FBiH. From the listed data it can be concluded that the debt abroad of the banks in FBiH significantly decreased, especially the deposit funds of the parent groups. Since the same decreasing trend is present with the loan liabilities, the banks are again faced with the problem of maintaining the maturity match, which is due to the unfavorable maturity of the local deposit funds, therefore the banks have to find and secure a better quality sources of funds in regard to maturity, in order to continue the growth of the loan placements from the last several months.

It should be emphasized that 96% or 1,55 billion KM of banking institutions' deposits refers to deposits of banks-members of groups (primarily shareholders). Financial support of the groups is present in nine banks in the Federation of BiH, with a concentration on three large banks (81%), with only one bank representing 40% of total deposits received from the group. In this manner, the domestic banks-members of the groups receive financial support and have secured inflow of new funding sources by the group whose members they are. Under the times of crisis and more difficult access to money market and new funds, as well as the increase of liquidity risk as result of deterioration in collection of loans and increase of nonperforming claims as well as the unsatisfactory maturity structure of local deposit sources, of special importance is support and willingness of the 'parent' to secure further financing of the 'daughter' bank in the volume necessary for the planned volume of operations, especially growth of the credit placements, as well as maintaining satisfactory liquidity positions of the bank. If credit liabilities and subordinate debts (loans and deposits in supplementary capital) are added to these funds, the financial support the banks receive from their groups becomes higher (in ten banks), amounting to 2,18 billion KM or 14,4% of total liabilities of the banking sector as of 30.06.2011 (in the total deposits the group funds have a participation of 13,8%, and in total liabilities 33,2% are loan liabilities towards the group). In comparison to the end of 2010, these funds were reduced by 104 million KM or 5% (deposits decreased by 64 million KM or 4%, credit liabilities by 6% or 28 million KM and subordinated loans by 7% or 12 million KM).

Under the support of IMF and other financial institutions, the FBA has been involved in activities related to signing of the Memorandum of Understanding with parent-banks from the European Union countries whose daughter-banks operate in the territory of BiH, the so-called "Vienna Initiative", by which the parent banks have taken the obligation to maintain the exposure in Bosnia and Herzegovina at the level from 31.12.2008., during the IMF program (2009 -2012), taken into account the availability of adequate credit possibilities in BiH within the defined good practices for managing the credit risk, capital and liquidity. Since, due to the economic crises, the banks' credit activities have significantly decreased, which resulted with high liquidity, as well as the good capitalization of almost all banks in FBiH which parent banks signed the "Vienna Initiative", in 2011 the trend of the decreasing exposure from the previous year continued in the deposit sources segment on the basis of the return of portions of deposit funds before the maturity. Once again emphasized should be the importance of the continuing financial support of the group, primarily the "parent", especially in the banks which core sources were deposits and credit funds from the "parent" bank or the group

Deposits of other sectors had minor changes: the private enterprises' deposits, after the significant growth in six months of 2011., of 14% or 189 million KM, as of 30.06.2011, amounted to 1,52 billion KM, while the participation increased from 11,9% to 13,6%. The deposits of private companies continued with a declining trend, the decline rate being 11%, which is a high 169 million KM, therefore as of 30.06.2011., with the amount of 1,32 billion KM they had a participation of 11,7% which presents a decrease by 1,5%. Deposits of government institutions, after a decline of 11% or 97 million KM, at the end of the first half of 2011 were 794 million KM, which is 7,1% of total deposits. Relatively significant changes in the deposits of the government institutions (the downfall) and public companies (the growth) are the result of separation and transfer of funds of around 90 million KM from the account of the Federal Ministry of finance to the account of one public company.

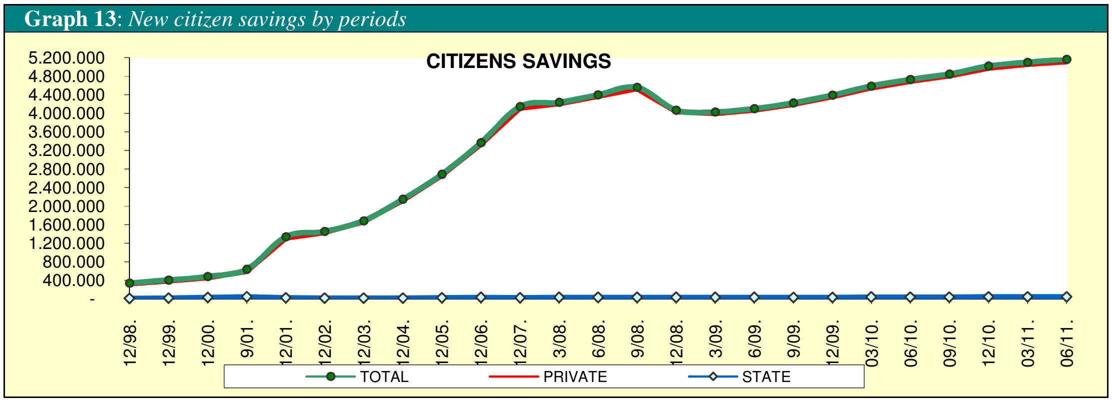
Currency structure of deposits, at the end of observing period remained unchanged: deposits in foreign currencies (with the dominant participation of EURO) in the amount of 6,4 billion KM participated with 57% and deposits in domestic currency in the amount of 4,8 billion KM participated with 43%.

Saving deposits, as the most significant segment of deposits and financial potential of banks, maintained the positive growth trend and in the first three months of 2011 with a growth rate of 3% or 143 million KM, amounted to 5,12 billion KM as of 30.06.2011., which is the highest amount so far and by 587 million KM or 13% higher than the level of savings as of 30.09.2008., which was the highest amount up to the crises.

Table 16*: New citizen savings by periods*

BANKS	AMOUNT (IN 000 KM)			RATIO	
	31.12.2009.	31.12.2010.	30.06.2011.	3/2	4/3
1	2	3	4	5	6
State	35.275	47.148	48.090	134	102
Private	4.325.928	4.926.361	5.068.416	114	103
TOTAL	4.361.203	4.973.509	5.116.506	114	103

Graph 13: *New citizen savings by periods*



The largest three banks hold 71% of savings, while participation of six banks has an individual participation of less than 1%, representing only 3,4% of total savings in the system.

Savings deposits in local currency represent 31% and in foreign currency 69% of total savings amount.

Table 14: : *Maturity structure citizen saving deposits by periods*

BANKS	AMOUNT (IN 000 KM)						RATIO	
	31.12.2009.		31.12.2010.		30.06.2011.		3/2	4/3
1	2		3		4		5	6
Short term saving deposits	2.054.197	47,1%	2.581.767	51,9%	2.562.959	50,1%	126	99
Long term saving deposits	2.307.006	52,9%	2.391.742	48,1%	2.553.547	49,9%	104	107
TOTAL	4.361.203	100,0 %	4.973.509	100,0 %	5.116.506	100,0 %	114	103

The maturity structure of the savings deposits slightly improved. The participation of the long term deposits increased from 48,1% to 48,9%, due to their growth of 7% or 162 million KM, while the short term decreased from 51,9% to 50,1%,due to their downfall of 1% or 19 million KM.

Long term continuous growth and positive trends in the savings segment of banks in the F BiH are a result, on one hand, of the strengthening of safety and stability of the overall banking system, giving the key importance to the existence of functional, effective and efficient banking supervision conducted by the FBA, and, on the other hand, deposit insurance system with the main purpose to increase stability of the banking, that is, financial sector and protection of depositors. In December 2008, with purpose to preserve citizens' trust in safety and stability of the banking system in BiH, the amount of insured deposit increased to KM 20.000. After that there was an initiative to increase the amount of the insured deposit, so as of 01.04.2010., it was increased to 35.000 KM, and all taken measures were directed to decrease the impact of the global economic crises on the banking and economic system of the Federation of BiH and BiH.

As of 30.06.2011., there are 15 banks included in the deposit insurance program in the Federation of BiH (they have a license by the Deposit Insurance Agency in BiH), and according to the submitted data 96,6% of total deposits and 98,5% of total savings are in these banks.

Of the remaining four banks three can not apply to be admitted since they do not qualify with the criteria prescribed by the Deposit Insurance Agency: one due to the existing composite rating, and two because they are under provisional administration. One bank , which upon receiving the new composite rang fulfilled this criterion, should start the procedure of entering the deposit insurance program.

2.1.2. Capital – strength and adequacy

2.1.3. Capital[13] of banks in the Federation of BiH, as of 30.06.2011., amounted to two billion KM

-in 000 KM-

Table 15: *Regulatory capital*

DESCRIPTION	31.12.2009.		31.12.2010.		30.06.2011.		RATIO 3/2	RATIO 4/3
1	2		3		4		5	6
STATE BANKS								
1. Core capital before reduction	44.906		45.431		46.458		101	102
2. Offsetting items	3.796		97		83		3	86
a) Core capital (1-2)	41.110	97%	45.334	98%	46.375	98%	110	102
b) Supplementary capital	1.294	3%	1.046	2%	1.123	2%	81	107
c) **Capital (a + b)**	42.404	100%	46.380	100%	47.498	100%	109	102
PRIVATE BANKS								
1. Core capital before reduction	1.708.796		1.839.728		1.903.967		108	103
2. Offsetting items	195.208		313.224		329.147		160	105
a) Core capital (1-2)	1.513.588	75%	1.526.504	76%	1.574.820	79%	10	103
b) Supplementary capital	506.458	25%	488.940	24%	430.544	21%	101	88
c) Capital (a + b)	2.020.046	100%	2.015.444	100%	2.005.364	100%	97	99
							100	
Total								
1. Core capital before reduction	1.753.702		1.885.159		1.950.425		108	103
2. Offsetting items	199.004		313.321		329.230		157	105
a) Core capital (1-2)	1.554.698	75%	1.571.838	76%	1.621.195	79%	101	103
b) Supplementary capital	507.752	25%	489.986	24%	431.667	21%	97	88
c) Capital (a + b)	2.062.450	100%	2.061.824	100%	2.052.862	100%	100	100

[13] Regulatory capital as defined by Article 8 and 9 of Decision on Minimum Standards for Capital Management in Banks (Official Gazette of the Federation of BiH, 3/03, 18/03, 53/06, 55/07, 81/07, 6/08).
[17] Data source is the quarterly Report on Capital Positions of Banks (Form 1-Schedule A) regulated by the Decision on Minimum Standards for Managing Capital in Banks.

In the first half of 2011, capital[14] remained on almost the same level, it decreased by only nine million KM in comparison to 2010, while the changes in core and supplementary capital influenced the changes in the structure of regulatory capital by three percent points, that is the increase of the participation of the core capital to 79% and decrease of the additional to 21%. The core capital increased by 3% or 49 million KM, and supplementary capital decreased by 12% or 58 million KM.

The core capital growth is a result in most part of the inclusion of the realized profit for 2010 in the amount of 49 million KM in the retained profit and reserves. After implementation of the legal procedure for adopting and implementing decisions on allocation of the revised profit by the banks' Assembly, the realized profit for 2010 in the amount of 49 million KM (14 banks) was 90% allocated into core capital (one bank directed the profit for a partial coverage of previous losses) Three banks had allocated a part of profit in the amount of 4,8 million KM into repayment of dividends, and one bank adopted a decision to pay a dividend from the retained earnings in the amount of 157,9 million KM.

In the second quarter of 2011, after in the first quarter there was no additional capital from external sources, two banks had additional capital in the amount of 14 million KM (10 million KM and four million KM). One bank had increased its shareholders capital by 2,6 million KM through internal additional capitalization (from reserves).

Deductable items (which decrease the core capital) increased by 15,9 million KM mostly from increase of the current loss (which is 17 million KM), with a simultaneous decrease of intangible property by 0,8 million KM.

Supplementary capital decreased by 58 million KM, with major changes in the structure: the 2010 profit of 52 million KM that was included in the additional capital at the end of 2010, was moved to the core capital, the subordinate debt (regular payments of the past due liabilities) and items of permanent character decreased by 15,8 million KM, while items of general loan loss provisions increased by 9,3 million KM. During the year the current unaudited profit does not go into the accrual of capital, which also influenced the decrease of supplementary capital.

Net capital, as well as regulatory capital, remained at almost the same level, that is it decreased by only 8,9 million KM, amounting to two billion KM as of 30.06.2011.

The banks' capital level rate is expressed as a ratio of capital and assets and as of 30. 06. 2011., it was 13%, almost unchanged from the end of 2010.

One of the most significant indicators of capital strength and adequacy[15] of banks is capital adequacy ratio calculated as a ratio of net capital and risk weighted assets. As of 30.06.2011., this ratio at the banking system level was 15,6% which is lower by 0,6% than at the end of 2010., due to the increase of total risk weighted risks by 3% or 378 million KM; while the net capital remained at almost the same level. The risk of the risk weighted assets and credit equivalents increased by 355 million KM (from 11,71 billion KM to 12,07 billion KM) mostly due to slight increase of credit activities, off-balance sheet items and placements to other banks, which are items that have risk weight with higher risk level (of 20% - 100%) with a simultaneous decrease of cash funds which the banks have in CBBiH and cash funds, and which risk weight is zero. On the other hand, the risk weighted operating risk (POR) increased by 23 million KM (966 million KM), which all together resulted with the noted increase of the total

[15] The Law prescribes minimum capital adequacy rate of 12%.

risk weighted risk. Apart from the listed, not including the current earnings in the accrual of capital during the year has a significant effect. If the current unrevised profit would be included in the accrual, the capital adequacy ratio would be 16%.

At the end of the first half of 2011, the participation of risk-weighted assets exposed to credit risk was 93%, and to operating risk 7%.

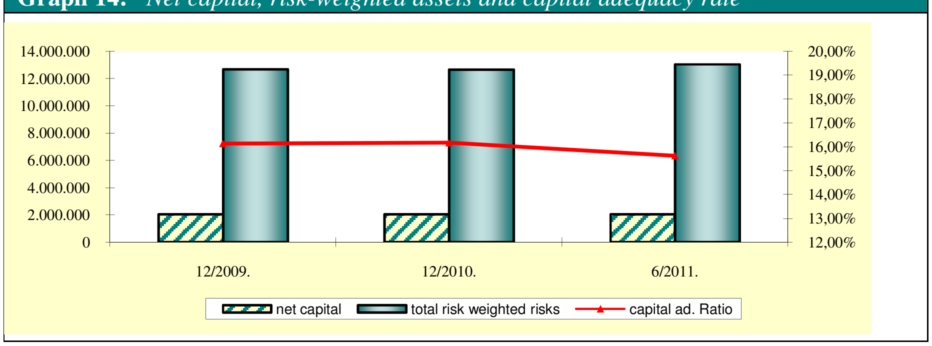
In process of conducting supervision of operations and financial positions of banks in the FBiH, as regulated by the Law, the FBA issues orders to banks to undertake actions for strengthening of capital base and provision of adequate capital in order to improve safety of both banks individually and the entire banking system, according to the level and profile of existing and potential exposure to all risks relevant to the banking operations. Under the conditions of economic crisis and the increase of the loan risk caused by the decline of the credit portfolio quality, this request has a priority and that is why the segment of capital is under a continuous enhanced supervision. One of the measures is also a requirement imposed on banks not to distribute the 2010 profit they generated to pay out dividends, but to rather strengthen their capital base, which was accepted by all banks.

- 000 KM-

Table 16: *Net capital, risk-weighted assets and capital adequacy rate*

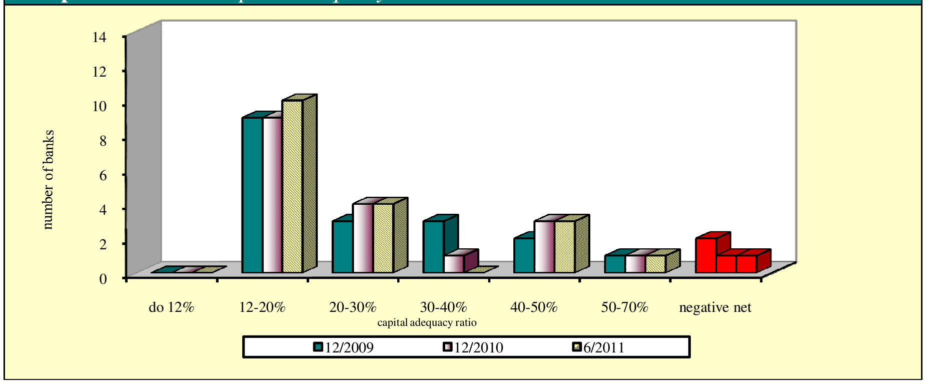
DESCRIPTION S	31.12.2009.	31.12.2010.	30.06.2011.	RATIO	
				3/2	4/3
1	2	3	4	5	6
1. NET CAPITAL	2.046.414	2.045.886	2.036.924	100	100
2. RISK WEIGHTED ASSETS AND CREDIT EQUIVALENTS	11.790.234	11.713.116	12.067.737	99	101
3. POR (RISK WEIGHTED OPERATING RISK)	882.928	942.707	965.932	107	100
4. TOTAL RISK WEIGHTED RISKS (2+3)	12.673.162	12.655.823	13.033.669	100	101
5. NET CAPITAL RATE (CAPITAL ADEQUACY) (1/ 4)	16,1%	16,2%	15,6%	101	99

Graph 14: *Net capital, risk-weighted assets and capital adequacy rate*



Capital adequacy rate of the banking system, as of 30.06.2011., was 15,6%, which is still much more than the minimum prescribed by the law (12%), representing satisfactory capitalization of the entire system and very strong basis and foundation to preserve its safety and stability.

Graph 15: *Banks' capital adequacy ratio*



Of total 19 banks in the FBiH, as of 30.06.2011., capital adequacy rate of 18 banks was higher than minimum prescribed by the law of 12%, one bank under provisional administration recorded capital adequacy rate below 12% that is a negative adequacy rate. According to analytical data at the end of the reviewing period in 2011, 13 banks recorded the capital adequacy rate lower than prior year, in the range from 0,1 to 5,1%, five banks recorded better rate.

Preview of capital adequacy rates of 18 banks in comparison to the minimum prescribed by the law of 12% is the following:

- ten banks had the rate between 13% and 18,7%, and three largest banks from 12,3% to 15,4%,
- seven banks had the rate between 20,4% and 41,5%,
- One bank had the rate between of 62,4%.

Further strengthening of capital base will be priority task in majority of banks as it has been the case so far, especially in the largest banks of the system, which is necessary to strengthen stability and safety of both banks and the entire banking system, especially due to changes in business and operating environment under which banks in the Federation operate, because of the global financial crisis expansion to the area of our country and adverse effects this crisis may have on the banking sector and the entire economy of BiH. After the beginning of the crises, due to the deterioration of the loan portfolio and increase of the reserve expenses for loan losses, which had a significant impact on the downfall of the profitability of all banks in the system, the bank's capital has been under increased supervisory review, in order to avoid the endangering the banks' stability and capital base erosion to the level that would jeopardize not only the operations of the banks, but also impact the stability of the total banking system.

2.1.3. Assets and asset quality

Decision on Minimum Standards for Loan Risk Management and Assets Classification of Banks determines the criteria for evaluation of bank's exposure to loan risk based on evaluation of their assets quality and adequacy of reserves for loan and other losses according to the risk of placements and balance sheet and off-balance sheet items.

Information on the Banking System of the Federation of BiH

Total assets with off-balance sheet items (assets)[16] of banks in the FBiH as of 30.06.2011., amounted to 18,3 billion KM, and gross assets[17] in the amount of 15,8 billion KM which is by 1% higher than at the end of 2010.

-in 000 KM-

Table 17: *Assets off-balance sheet items and potential loan losses*

DESCRIPTION	AMOUNT (in 000 KM)						RATIO	
	31.12.2009.	Struct. %	31.12.2010.	Struct. %	30.06.2011.	Struct. %	4:2	6:4
1.	2	3	4	5	6	7	8	9
Loans	9.442.600	60,1	9.414.729	59,8	9.659.820	60,5	100	103
Interests	61.797	0,4	51.348	0,3	53.897	0,4	83	105
Past due claims	352.580	2,2	566.629	3,7	613.046	3,9	161	108
Claims for paid guarantees	1.620	0,0	553	0,0	267	0,0	34	48
Other placements	276.693	1,8	410.797	2,6	394.140	2,6	148	96
Other assets	5.581.877	35,5	5.292.854	33,6	5.105.909	32,6	95	96
TOTAL ASSETS	15.717.167	100,0	15.736.910	100,0	15.827.079	100,0	100	101
OFF-BALANCE SHEET	2.271.512		2.352.092		2.444.433		104	104
ASSETS WITH OFF-BALANCE SHEET	17.988.679		18.089.002		18.271.512		101	101
RISK ASSETS WITH OFF-BALANCE SHEET	12.583.315		13.053.738		13.528.487		104	104
General loan risk and Potential loan losses	534.721		717.713		761.254		134	106
General and Special loan loss reserves already established	534.749		717.768		761.297		134	106

Non-risk items amount to 4,7 KM or 26% of total assets with off-balance sheet, and they are by 6% less than as of the end of 2010. On the other hand, risk assets with off-balance sheet items amount to 13,5 billion KM, and they increased by 4% or 475 million KM. Off-balance sheet risk items amounted to 2,4 billion KM.

After the negative trends in the previous periods in the segment of lending as a key activity of the banks due to the impact of the global financial and economic crises, in the six months of 2011, the positive trend from the second half of 2010 continued, that is a slight growth of loans of 3% or 291 million KM. As of 30. 06. 2011., the loans were 10,3 billion KM, with participation in the assets of 67,9%, which is 1,7 percent in relation to the end of 2010.

In the first half of 2011, granted was a total 2,7 billion KM of new loans, which is by 21% or 479 million KM more than for the same period in 2010. Of the total granted loans 70% refers to economy and 29% to citizens. The maturity structure of the newly granted loans slightly changed for the benefit of the long term loans in relation to the end of 2010, the participation of the long term loans was 50,9%, and short long term loans 49,1% (31.12.2010: the same participation of 50%).

The most significant limiting factor to the credit growth in the last two years is adverse impact of the crisis to the entire economy in BiH and deterioration of condition in the real sector, then decreased citizen’s spending, as well as more restrictive and prudent lending policies of banks. Although a slight growth of loans is evident, which has a positive impact on the asset quality indicators, there is still a deteriorating trend for loans through increase of nonperforming loans, but in a significantly lower volume than last year. The level of the poor placements is still relatively high and as a consequence the loan losses are, too, which in 2011 will have negative effect on the banks’ financial results. In 2010 the banks significantly increased the provisioning for loan losses, due to the increase of the poor performing loans, and a part was used for write

[16] Assets defined by Article 2 of Decision on Minimum Standards for Loan Risk Management and Assets Classification of Banks („Official Gazzette of FBiH“, number 3/03, 54/04, 68/05).
[17] Data source: Report on classification of balance sheet assets and off-balance sheet items of banks.

off of unpaid receivables and transfer of the off-balance records. The established reserves for loan losses will be a good amortization for potential loan losses in the following period

The FBA has been involved in the activities aimed at signing of the Memorandum of Understanding with parent-banks from the European Union countries whose daughter-banks operate in the territory of BiH, so called „Vienna Initiative“, which will secure additional financial funds for lending to the real sector, since any deterioration of the economy could adversely reflect to the rating of daughter-banks, and consequently weaken the rating of parent banks.

Three largest banks in the FBiH with credit amount of 6,3 billion KM have participation of 60,9% in total loans at the system level.

From the aspect of sectors to which banks originate their loans, the movements in the first half of 2011, can be evaluated as positive due to increase of loans originated to private companies, as well as a slight increase of placements to citizens, after in 2010, and in the first quarter of 2011 they recorded a decline of 1%. In comparison to the end of 2010, the loans to private companies are higher by 5% or 239 million KM, and they amount to five billion KM or 49,4% of total loans (48,2% at the end of 2010). Loans to citizens decreased by 1% or 56 million KM, and they amount to 4,8 billion KM, with a participation of 46,3% (47,4% at the end of 2010). The data submitted by banks, as of 30.06.2011., in the aspect of loan structure originated to citizens (based on the purpose), record an increase of loans granted to finance consumer goods[18] from 72 to 74, while housing loans declined from 25% to 23, and the remaining 3% have loans for SMEs and agriculture.

Three largest banks in the system financed 65% of total loans originated to citizens, and to private companies 57% of total loans to all sectors (for citizens sector 65,4% at the end of 2010, and 59% for private companies).

Trend and changes in participation of individual sectors in the overall structure of loans are presented in the following table:

-in 000 KM-

Table 18: *Loan structure through departements*

DEPARTMENTS	31.12.2009.		31.12.2010.		30.06.2011.		RATIO	
	Amount	Partic%	Amount	Partic %	Amount	Partic %	4/2	6/4
1	2	3	4	5	6	7	8	9
Government institutions	74.609	0,8	126.328	1,3	122.054	1,2	169	97
Public enterprises	184.005	1,9	238.105	2,4	244.690	2,4	129	103
Private enterprises and assoc.	4.696.276	47,9	4.815.426	48,2	5.054.020	49,4	103	105
Banking institutions	6.755	0,1	10.975	0,1	12.326	0,1	162	112
Non-banking financial instit.	51.255	0,5	37.235	0,4	36.887	0,4	73	99
Citizens	4.765.656	48,6	4.733.198	47,4	4.789.501	46,3	99	101
Other	18.244	0,2	20.644	0,2	13.655	0,2	113	66
TOTAL	9.796.800	100,0	9.981.911	100,0	10.273.133	100,0	102	103

Currency structure of loans has also been unchanged for longer period: loans financed with currency clause had the highest participation of 70,5% or 7,2 billion KM (EUR: 6,834 million KM or 94%, CHF: 405 million KM or 6%), loans in domestic currency of 28% or 2,9 billion KM, while loans in foreign currency had the lowest participation of only 1,5% or 154 million KM (EUR: 125 million KM or 81%, CHF: 18 million KM or 11,5%). The total amount of loans in CHF currency of 423 million KM is 4% of the total loan portfolio and almost the whole amount refers to one bank in the system.

[18] Credit cardoperations included.

Since placements, that is, loans represent the most risky portion of banks' assets, their quality represents one of the most significant elements of stability and successful performance. Evaluation of assets quality is actually evaluation of exposure to loan risk of banks' placements, that is, identification of potential loan losses that are recognized as loan loss provisioning.

Quality of assets and off-balance sheet risk items, general loan risk, potential loan losses by classification categories[19] and off-balance sheet items are presented in the following table:

Table 19: *Asset classification, general loan risk (GLR),potential loan losses (PLL) and off-balance sheet items (charged off assets and suspended interest)*

Classification category	AMOUNT (in 000 KM) AND PARTICIPATION (in%)									RATIO	
	31.12.2009.			31.12.2010.			30.06.2011.				
	Assets classif.	Partic. %	GLR PLL	Assets classif.	Partic. %	GLR PLL	Assets classif.	Partic. %	GLR PLL	5/2	8/5
1	2	3	4	5	6	7	8	9	10	11	12
A	10.260.601	81,5	205.228	10.477.329	80,3	209.555	10.952.433	81,0	218.912	102	104
B	1.804.767	14,4	136.973	1.645.750	12,6	132.048	1.546.904	11,4	131.879	91	94
C	307.892	2,5	72.970	471.505	3,6	113.962	533.967	4,0	128.361	153	113
D	206.201	1,6	115.703	455.303	3,5	258.297	491.142	3,6	278.064	221	108
E	3.854	0,0	3.847	3.851	0,0	3.851	4.041	0,0	4.038	100	105
Risk assets (A-E)	12.583.315	100,0	534.721	13.053.738	100,0	717.713	13.528.487	100,0	761.254	104	104
Classified (B-E)	2.322.714	18,5	349.493	2.576.409	19,7	508.158	2.576.054	19,0	542.342	111	100
Non perform. (C-E)	517.947	4,1	119.550	930.659	7,1	376.110	1.029.150	7,6	410.463	180	111
No risk assets[20]	5.405.364			5.035.264			4.743.025			93	94
TOTAL (risk and no risk)	17.988.679			18.089.002			18.271.512			101	101
OFF BALANCE SHEET											
Written Off	505.632	89,7		622.990	89,6		650.602	89,4		123	104
Susp. Interest	57.957	10,3		72.251	10,4		76.390	10,6		125	106
TOTAL:	563.589	100,0		695.241	100,0		726.992	100,0		123	105

Risk assets with off-balance sheet items (A-E) amounted to 13 billion KM, and, as of 30.06.2011., these items increased by 4% or 475 million KM. Non-risk items amounted to 4,7 billion KM, decreasing by 6% or 292 million KM in comparison to the end of 2010.

If an analysis of the risk assets quality is performed, it could be concluded, that in the first half of 2011, the negative trend of the downfall of asset quality and its deterioration from the previous period had significantly improved, special mentioned assets (category B) decreased, poor performing assets slightly increased, and that there was a significant decrease of write off into the off-balance sheet. It must be noted that the highest impact on the significant deterioration of the indicators of the overall system had one bank, which in the previous periods intensified “cleaning” of its credit portfolio, which as a result had a significantly more poor asset quality indicators of this bank and the overall banking system. While the credit portfolio participation of that bank as of 30.06.2011., was 15,5%, the participation of its classified and non performing assets was 33% and 56%, and of the realized increase of the non-performing loans (98 million KM) the largest part refers to the bank (67 million KM or 68%). In the other banks the indicators has slight oscillations (deterioration or improvement), that is: six banks have indicators of the classified in relation to the risk assets more poor than the banking sector, and only one bank has participation of non-performing in relation to risk asses also more poor than the banking sector.

[19] As regulated in the Article 22 of the Decision on Minimum Standards for Managing Credit Risk and Assets Classification in Banks, banks have to allocate and maintain reserves for general and special loan losses in percentages according to classification categories: A 2%, B 5% to 15%, C 16% to 40%, D 41% to 60% and E 100%.

[20] Assets items that are not, according to Article 22, Paragraph 7 of Decision on Minimum Standards for Bank Credit Risk and Assets Classification Management, subject to accrual of general loan loss provisions of 2%.

Classified assets (B – E) is on the same level as last year, the category B was decreased by 6% or 99 million KM, and nonperforming assets (C-E) increased by 11% or 98 million KM. In the first half of 2011 performed was the write off of the assets and interest (transferred to off balance sheet) in the amount of 76 million KM which is almost twice less than the amount of write off in relation to the second half of 2009. While in 2010, due to poor collection and increase of due days of the past due receivables, the banks had to perform a reclassification and a significant amount of loans were moved from B category to nonperforming category resulting in the increase of the loan loss provisioning expenses and having a significant negative impact on the financial results of the banks in 2010., in the first half of 2011, due to a significantly lower growth of poor performing loans, recorded is a decline of reserves for loan losses, which had a positive reflection on the financial result of the banking system.

The classified assets as of 30.06.2011 were 2,6 billion KM, and nonperforming one billion KM (31.12.2010: 2,6 billion KM and 931 million KM).

As result of the mentioned, the indicators of asset quality expressed as ratio, that is, participation of individual categories in risky assets have deteriorated in comparison to the end of 2010. The classified assets to risky assets ratio has improved by 0,7% due to a downfall of classified assets (3,6%) in comparison to the end of 2010, which is representing 19,0%.

If an analysis is performed of only the ratio and trend of nonperforming assets and risk assets, as of 30.06.2010., this ratio was 7,6%, which is still relatively low ratio, and, if compared to the end of 2010, it is higher by 0,5 per cent. If we take into account the category E (the written off placements) the noted ratio is significantly higher and is 12,3% (in some banks up to three times higher due to significant write offs). However, it should be taken with reserve, taken that the participation of category B in the risk assets is 11,4%, and the doubt that portion of placements reported under this category deteriorated in quality and should be categorized as nonperforming assets, in other words that some banks still practice not to timely establish adequate loan loss provisioning which was confirmed in the on-site examinations and resulted in insufficient provisioning for loan losses. That’s why it is crucial that the banks rate the quality of their placements as realistically as possible, especially due to the fact that performing under a crises increases the delays in collection of the due receivables, the reserve expenses grow, and the earnings of the bank decline.

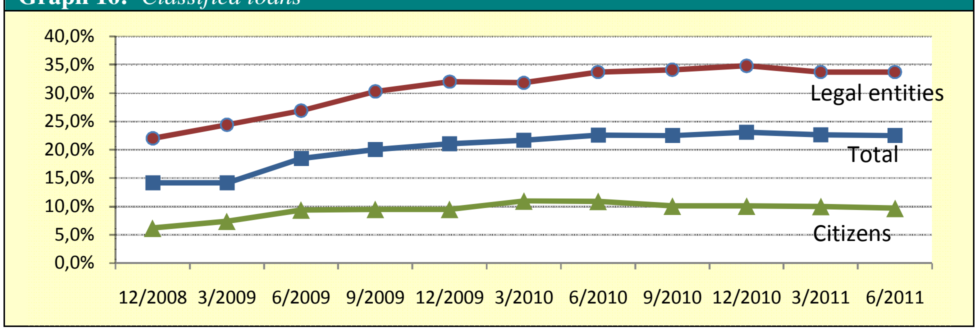
The analysis of data by sectors is based on the indicators of the quality of loans granted to the two most significant sectors: private companies and citizens. The two mentioned indicators for these sectors are significantly different and indicate higher loan risk exposure, and also the exposure to potential loan losses with the loans originated to legal entities.

Table 20: *Classification of loans originated to citizens and legal entities*

Classification category	AMOUNT (in 000 KM)AND PARTICIPATION (in%)												RATIO
	31.12.2010.						30.06.2011.						
	Citizens	Partic. %	Legal entities	Partic. %	TOTAL Amount	TOTAL Partic.	Citizens	Partic. %	Legal entities	Partic. %	TOTAL Amount	TOTAL Partic.	12/6
1	2	3	4	5	6 (2+4)	7	8	9	10	11	12 (8+10)	13	14
A	4.257.408	89,95	3.422.650	65,21	7.680.058	76,94	4.323.929	90,28	3.637.074	66,33	7.961.003	77,49	104
B	185.851	3,93	1.201.981	22,94	1.387.832	13,90	178.487	3,73	1.123.300	20,48	1.301.787	12,67	94
C	125.114	2,65	336.038	6,36	461.152	4,62	128.402	2,68	395.504	7,21	523.906	5,10	114
D	164.826	3,47	288.042	5,49	452.868	4,54	158.683	3,31	327.754	5,98	486.437	4,74	107
E	1	0,00	0	0,00	1	0,00	0	0,00	0	0,00	0	0,00	0
TOTAL	4.733.200	100,0	5.248.711	100,0	9.981.911	100,00	4.789.501	100,0	5.483.632	100,0	10.273.133	100,00	103
Class.loans B-E	475.792	10,05	1.826.061	34,79	2.301.853	23,06	465.572	9,7	1.846.558	33,67	2.312.130	22,51	100
NPL C-E	289.941	6,13	624.080	11,89	914.021	9,16	287.085	6,0	723.258	13,19	1.010.343	9,83	110
		47,42		52,58		100,00		46,62		53,38		100,00	
Participation by sectors in classified loans, nonperforming loans and category B:													
Classification B-E		20,67		79,33		100,00		20,14		79,86		100,00	
NPL C-E		31,72		68,28		100,00		28,41		71,59		100,00	
Category B		13,39		86,61		100,00		13,71		86,29		100,00	

The indicators of the quality of loans slightly deteriorated in the first half of 2011, especially the participation of the poor performing loans, primarily as a result of the growth of the total poor quality loans by 10,5% or 96 million KM, legal entities by around 99 million KM or 16%, while poor performing loans to citizens declined by 1% or 3 million KM, which lead to increase of the participation of the poor performing loans from 9,16% to 9,83%, and had a negative impact on other indicators for these two sectors and total loan portfolio. However, again should be noted the impact of the indicators of one bank on the total banking system, especially on the growth indicator and participation of the non-performing loans, since if that bank is excluded, it can be concluded that the indicators are at the same level as 31.12.2010 (4,87) and are 5,04%.

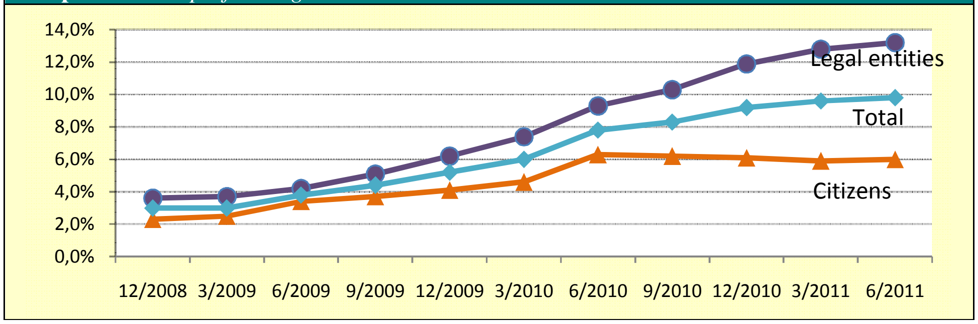
Graph 16: *Classified loans*



As of 30.06.2011., of total loans originated to legal entities in the amount of 5,5 billion KM, 1,8 billion KM or 33,67% was classified in categories B to E (1,8 billion KM or 34,79% at the end of 2010), while of total loans originated to citizens in the amount of 4,8 billion KM, classification categories B to E represent 466 million KM or 9,7% (476 million KM or 10,05% at the end of 2010).

Information on the Banking System of the Federation of BiH

Graph 17: *Non-performing loans*



Of loans finance to legal entities, 723 million KM was classified as nonperforming loans or 13,19% of total loans originated to this sector (as of 31.12.2010., these items amounted to 624 million KM or 11,89%). Nonperforming loans, in the sector of citizens, amounted to 287 million KM or 6,0% of total loans originated to this sector (as of 31.12.2010., these items amounted to 290 million KM or 6,13).

Due to poor performing receivables trend that is the delays in collecting the past due loan liabilities from clients, there were activated some guarantees in a number of delinquent loans that had this type of insurance, so the burden of payment of such loans fell on the guarantors. As of 31.12.2009., the FBA requires a report about the loans being repaid by the guarantor, in order to collect, monitor and analyze the data on loans that are being repaid by the guarantors. According to the banks' reports in F BiH as of 30. 06. 2011., 3.321 guarantors in total repaid 12 million KM of the total granted amount of loans of 72 million KM (2.795 credit party), which is by 23% less in comparison to the amount of the payment by the guarantors as of 31. 12. 2010. (15 million KM paid by 3.767 guarantors, while the amount of the total loans was 101 million KM – 3.192 credit parties). The amount of the remaining debt is 47 million KM (31. 12. 2010.: 63 million KM). From the listed data it can be concluded that in the first half of 2011, the amount of loans paid by guarantors decreased, the balance of the remaining debt, as well the amount of payments on the account of guarantors, which was mostly influenced by the return of the significant amount of repayment of loans by principal debtor (around 30 million KM, eight debtors, all legal entities). The participation of loans and the number of credit parties being repaid by the guarantors in relation to the data for the entire system is low and amounts to only 0,46% and 0,25%.

With an aim to defer the negative effects of the global financial and economic crises, and taking care of maintaining the stability of the banking sector, the FBA at the end 2009, issued a Decision on temporary measures for reconstruction of loan liabilities of individuals and legal entities[21].

The main goal for issuing these temporary measures was to stimulate the banks to „revive“ credit activities, and restructuring the existing receivables, without increasing the price of the loan and expenses for the existing creditors, to help both the individuals and the legal entities to overcome the situation in which they are because of the effects of the economic crises (decrease in the repayment capability, for individuals due to the loss of jobs, late salaries, decrease in income etc., and for legal entities due to increased lack of liquidity, significant decrease of business activities, very difficult conditions in the real sector in general etc.).

[21] "Official Gazette F BiH", No.2/10.

Acting in accordance with the mentioned Decision, the banks in the Federation of BiH in the first half of 2011, of total received 262 requests for reconstruction of credit liabilities granted 241 requests in the total amount of 32,6 million KM or 92% which is significantly lower in comparison to the first half of 2010. Of the total amount of granted reconstructed liabilities 30,9 million KM refers to legal entities, and 1,6 million to individuals.

Net effect on the loan loss reserves (in further reading LLR), based on the performed reprogramming is an increase of 391 thousand KM. It should be noted that there were opposite movements, that is increases and declines of the LLR on these basis, which at the end resulted in the noted net effect. The banks were performing very prudently, mostly maintaining the LLR on the same level, with which they were able to avoid short term and long term increases of the income, which in reality presents a true and responsible banks' attitude in implementing the provisions of the Decision that relate to this segment.

In the first quarter of 2011., the reconstructed loans in the total loans as of 30.06.2011., have a participation of only 0,31% (for the sector of legal entities in the portfolio of legal entities this per cent is 0,56%, while the citizens sector is 0,03%).

Although the results and the effects of implementation of the Decision are not significant, it is estimated that development of such a regulation was very important, such measures of temporary character under the conditions of extreme financial and economic crises were necessary for the financial and real in FBiH, and had a positive effect on debtors (individuals and legal entities), facilitating debt servicing in compliance with their repayment ability. That is why the prolonging of the amendments of the Decision to the end of 2011 is justifiable, especially due to the fact that the impact of the crises is still evident, and that the positive movements and economic recovery are to be expected next year.

For more realistic assessment, it should take into account the amount of loans that banks, during the observing period, charged off to the off-balance sheet, as presented in the following table.

-000 KM-

Table 21: *Off-balance sheet records: charged off assets and suspended interest*

DESCRIPTION	CITIZENS		LEGAL ENTITIES		TOTAL	
	Charged off assets	Suspended interest	Charged off assets	Charged off assets	Suspended interest	Charged off assets
1	2	3	4	5	6	7
Opening balance as of 31.12.2010.	216.721	16.759	406.269	55.530	622.990	72.289
Changes in 2011:						
- new charge offs (current year)	35.487	3.314	30.399	7.199	65.886	10.513
- payments made in the current year	14.696	3.116	14.036	2.777	28.732	5.893
- permanent charge off	109	16	9.433	503	9.542	519
Balance as of 30.06.2011.	237.403	16.941	413.199	59.449	650.602	76.390

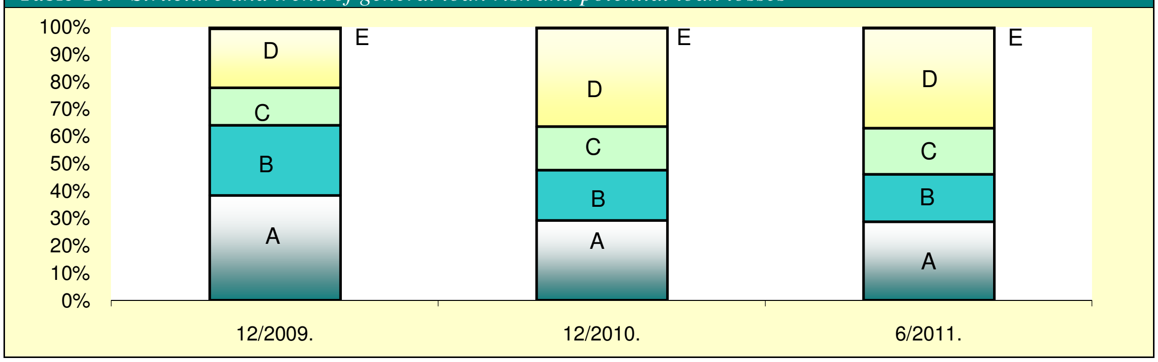
Balance of the charged off assets, as of 30.06.2011., (651 million KM), and the suspended interest (76 million KM) increased by 4% that is 6% in comparison to 2010. The write off of the assets in the first half of 2011 declined two times in comparison to the second quarter of 2010.

Level of general loan risk and estimated potential loan losses in the classification categories, as determined in accordance with the criteria and methodology prescribed by the FBA's decisions, their trend and structure at the level of the banking sector are presented in the following tables and graphs.

Table 22: *Off-balance sheet records: charged off assets and suspended interest*

Classification category	AMOUNT (in 000 KM) and STRUCTURE (in%)						RATIO	
	31.12.2009.		31.12.2010.		30.06.2011.		4/2	6/4
1	2	3	4	5	6	7	8	9
A	205.228	38,4	209.555	29,2	218.912	28,8	102	104
B	136.973	25,6	132.048	18,4	131.879	17,3	96	100
C	72.970	13,7	113.962	15,9	128.361	16,9	156	113
D	115.703	21,6	258.297	36,0	278.064	36,5	223	108
E	3.847	0,7	3.851	0,5	4.038	0,5	100	105
TOTAL	534.721	100	717.713	100	761.254	100	134	106

Table 18: *Structure and trend of general loan risk and potential loan losses*



As reported, banks have established loan loss provisions in accordance with the regulations and level of the estimated credit risk.

Based on an analysis of the established provisions, in total amount and by classification categories, if compared to the end of 2010, general loan risk (for category A) and potential loan loss provisions have increased by 6%, or 43 million KM amounting to 761 million KM. Due to an increase of the poor performing assets, the banks had to increase the reserves for these poorest quality loans by 9%, from 376 million KM to 410 million KM. The reserves for general credit risk (A category) increased by an insignificant 4% or nine million KM, while for category B, due to its decrease by 99 million KM, mostly generated by the reclassification into more poor categories, the reserves decreased by insignificant 169 thousand KM. One of the most significant indicators of the asset quality is the relation of the potential loan losses and the risk assets with the off-balance sheet, which is 4,01% and is slightly higher than the previous year (3,89%). However, if we take into consideration the E category, the listed ratio is two times higher and is 8,9%. As of 30.06.2011., banks in average allocated for category B 8,5%, for category C 24%, category D 56,6% and E 100% (at the end of 2010: B 8%, C 24,2%, D 56,7% and E 100%).

The asset quality analysis, that is, the loan portfolio analysis of individual banks, as well as on-site examinations at banks, indicate loan risk as dominant risk with majority of banks, raising a concern that some banks still have inadequate management practices, that is, evaluation, measuring, monitoring, and control of loan risk and assets classification, which was determined in on-site examinations through significant amount of insufficient loan loss reserves that banks have established based on the orders issued by the FBA. However, this is not adding to an essential resolution of the problem.

The FBA has ordered corrective measures to those banks whose assets quality was rated poor by the examination in sense of preparation of the operating program that has to contain action plan aimed to improve existing practices for loan risk management, that is, assets quality management, decrease of existing concentrations and resolution of the nonperforming assets issue, and prevention of their further deterioration. Implementation of the FBA's orders is continuously monitored through an intensified follow-up procedure based on reports and other documentation submitted by banks, as well as their verification in targeted on-site examinations. Supervision of this segment has been intensified due to obvious adverse trends, which has a significant impact through deterioration of banks' profitability and declining of their capital base, which is a reason for banks to timely take actions to raise capital from external sources.

Transactions with related entities

While operating, banks are exposed to different types of risks, of which the most significant is the risk of transactions with related entities of banks.

In accordance with the Basle Standards, the FBA has established certain prudential principles and requirements related to transactions with related entities of banks, as regulated in Decision on Minimum Standards for Bank's Operations with Related Entities, prescribing requirements and method of operations with related entities. The Decision and Law on Banks regulate the duty of Supervisory Board of a bank, which has to adopt, upon the proposal of the General Manager, special policies regulating operations with related entities and to monitor their implementation.

The FBA Decisions prescribe a special set of reports, including transactions with one segment of related entities, such as loans, and potential and undertaken off-balance sheet liabilities (guarantees, letters of credit, undertaken loan commitments), as the most frequent and the most riskiest form of transactions between a bank and related entities.

The set of prescribed reports include data on loans originated to the following categories of related entities:

- Bank's shareholders over 5% of voting rights,
- Supervisory Board members and bank management and
- Subsidiaries and other enterprises related to a bank.

-000 KM-

Table 23: *Transactions with related entities*

Description	GRANTED LOANS[22]			RATIO	
	31.12.2009.	31.12.2010.	30.06.2011.	3/2	4/3
1	2	3	4	5	6
Shareholders over 5% of voting rights, subsidiaries and other related enterprises	29.191	84.600	92.708	290	110
Supervisory Board and Audit Board members	470	375	303	80	81
Bank Management	2.193	2.239	1.944	102	87
TOTAL	31.854	87.214	94.955	274	109
Potential and undertaken off-balance sheet liabilities	5.137	22.653	27.390	441	121

In the observed period, credit exposures to persons related to banks increased by 9%, and potential liabilities by 21%. Based on the presented data, it can be concluded that it is still a question of a small amount of loans-guarantees operations with related entities, and the level of risk is low. The FBA pays special attention (in on-site examinations) to banks' operations with related entities, especially in assessing identification system and monitoring of risk exposure to related entities operations. The FBA on-site examiners issue orders for elimination of determined weaknesses within certain deadlines and initiate violation procedures. Part of these activities is

[22] Apart from loans, it includes other claims, deposited funds and the placements to shareholders (financial institutions) exceeding 5% of voting rights.

also to monitor and supervise implementation of the issued orders in the follow up procedure. This has had a positive influence on this segment of operations, since the risk management quality in this segment has improved.

2.2. Profitability

In the first half of 2011, according to the income statements, the banks in the Federation of BiH realized a positive financial result – profit in the amount of 47,7 million KM, while in the same period in 2010, there was loss generated on the level of the banking sector in the amount of 67,7 million KM. The biggest effect on the realization of the positive result on the level of the banking system had the significant decrease of the high loss in one bank, which in the same period last year was 11 million KM, and was higher than the loss on the level of the system, as well as decrease of losses in other banks that previously had a negative performance, realization of higher income (especially in two banks) in banks that had a positive performance in the same period last year.

The biggest influence on improvement of profitability in a number of banks is the decrease of loan loss provisions, increase of net interest and other income in almost all banks in the system.

Positive financial result of 64,8 million KM was generated by 13 banks, which is almost three times higher or by 42,5 million KM than in the same period in 2010. At the same time seven banks reported loss of 17,2 million KM, which declined by 81% or 72,9 million KM in comparison to the same period in 2010

Detailed data is shown in the following table.

-000 KM-

Table 24: *Financial result reported: profit/loss*

Date/Description	At the system level		State banks		Private banks	
	Amount	No. of banks	Amount	Amount	No. of banks	Amount
30.06.2009.						
Loss	-21.598	7	-756	1	-20.842	6
Profit	35.584	13	401	1	35.183	12
Total	**13.986**	**20**	**-355**	**2**	**14.341**	**18**
30.06.2010.						
Loss	-90.052	7	-276	1	-89.776	6
Profit	22.336	13	390	1	21.946	12
Total	**-67.716**	**20**	**114**	**2**	**-67.830**	**18**
30.06.2011.						
Loss	-17.161	6	-	-	-17.161	6
Profit	64.828	13	427	1	64.401	12
Total	**47.667**	**19**	**427**	**1**	**47.240**	**18**

Similar to other segments, this segment has also encountered concentrations: of total profit generated (64,8 million KM), 77,8% or 50 million was generated by two banks in the system, whose participation in the banking system assets was 48,7%. In the total loss of 17 million KM, 12,3 million KM or 71,5% refers to only one bank with asset participation of 12,4%, third in the system. Analytical data for the first half of 2011., indicate that a total of 15 banks have a better financial result (by 118,4 million KM), and four banks have worse results (the effect is only 3,3 million KM).

Based on the analytical data and the indicators for the quality evaluation of the profitability (the amount of the generated financial result – profit/loss and ratios used for evaluation of profitability productivity and efficiency of operation as well as other parameters related to evaluation of operation) it can be concluded that the total profitability of the system had improved in comparison to the previous year, and especially at larger banks that are carriers of profitability of which one generated minimal profit in the same period last year, and in the first half of 2011 it is operating with high income, profitability has significantly improved and is recording a growth trend.

At the system level, total income was realized in the amount of 449 million KM with an increasing rate of 11% or 46 million KM in relation to the comparing period in the previous year. Total noninterest bearing expenses were 402 million KM, with the decrease rate of 15% or 70 million KM which had a positive reflection to the overall financial result of the sector.

The most significant factors that influenced the stagnation, that is the slim growth of the interest income (although there was an increase of the average loans by 3,5%) are: the decrease of the active interest rates, as well as the growth of the poor performing assets and related suspended interest. The total interest income was 423,6 million KM and in comparison to the same period last year is lower by 1% or 2,8 million KM, and their participation in the total income decreased from 105,7% to 94,3%. In the interest income structure the largest participation belongs to the interest income from loans, which are 377,3 million KM or 83,8% of the total income, with a decline of 3% or 12,1 million KM.

On the other hand, positive changes were recorded in interest expenses which had a decline rate of 15%. The interest expenses are 144,4 million KM, with a change in participation in the total income from 42,1% to 32,1%. Interest expenses on deposits, as a structurally largest item of the interest expenses, declined by 19% or 27 million KM, primarily as a result of the decrease of interest rates on short term and long term deposits for legal entities and citizens. In the first half of 2011, after the significant decline of the interest expenses on taken loans and other borrowings in the last year (48%), which was due to regular payments, and in part due to payments before the due date (which the banks were performing in order to decrease the expenses caused by high liquidity), they recorded a slight growth of 4% or one million, with a decreased participation from 5,4% to 5,1%.

Net interest income is 279,2 million KM and in comparison to the same period last year increased by 9% or 22,6 million KM, with a declined participation in the total income from 63,5% to 62,1%.

Operating income was 170,2 million KM and in relation to the comparing period recorded a growth of 16% or 23,2 million KM with a change in the participation in the total income from 36,4% to 37,9%.

Total noninterest expenses were 401 million KM and in comparison to the same period of last year decreased by 15% or 70 million KM, primarily based on the downfall of loan loss provisions. At the same time, their participation in the structure of total income declined from 116,8% to 89,4%.

After a significant increase in the first half of 2010, in comparison to the same period in 2009 (87%), in the first half of 2011 the reserve expenses for loan losses nominally and relatively had a significant decline of 41% or 78 million KM, and were 114,7 million KM, and their participation in the structure of the total income significantly declined from 47,8% to 25,5%. The salary and contributions expenses had the opposite trend and movements with a growth rate of 3% or six million KM, of which salary expenses and contributions, as the most significant item, had a growth of 2% and are 125,4 million KM (average number of employees in the first half of 2011., decreased by 3% in comparison to the first half of 2010) and fixed assets expenses with increasing rate of 2% were 76,6 million KM.

Trend and structure of total income and expenses is presented in the following tables and graphs:

- in 000 KM-

Table 25: *Structure of total income*

Structure of total income	30.06.2009.		30.06.2010.		30.06.2011.		RATIO	
	Amount	%	%	%	Amount	%	4/2	6/4
1	2	3	4	5	6	7	8	9
I Interest income and similar income								
Interest bearing deposit accounts with depository institutions	15.979	2,6	7.040	1,2	12.392	2,1	44	176
Loans and leasing	430.843	70,7	389.360	67,9	377.293	63,5	90	97
Other interest income	22.991	3,8	30.063	5,2	33.930	5,7	131	113
TOTAL	469.813	77,1	426.463	74,3	423.615	71,3	91	99
II Operating income								
Service fees	90.002	14,7	97.906	17,1	101.415	17,1	109	104
Foreign exchange income	14.948	2,5	15.999	2,8	19.976	3,4	107	125
Other operating income	34.794	5,7	33.097	5,8	48.790	8,2	95	147
TOTAL	139.744	22,9	147.002	25,7	170.181	28,7	105	116
TOTAL INCOME (I + II)	609.557	100,0	573.465	100,0	593.796	100,0	94	104

Graph 19: *Structure of total income*

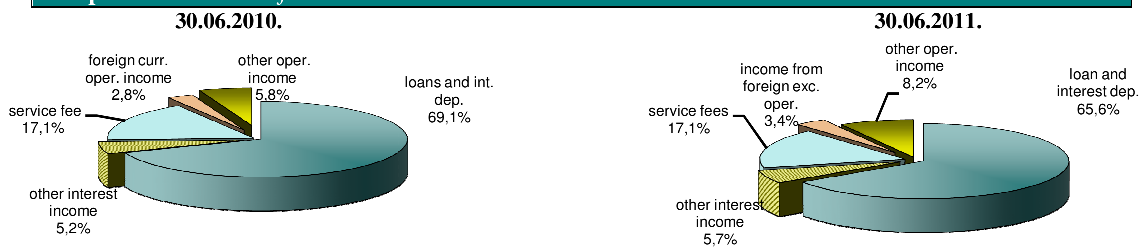
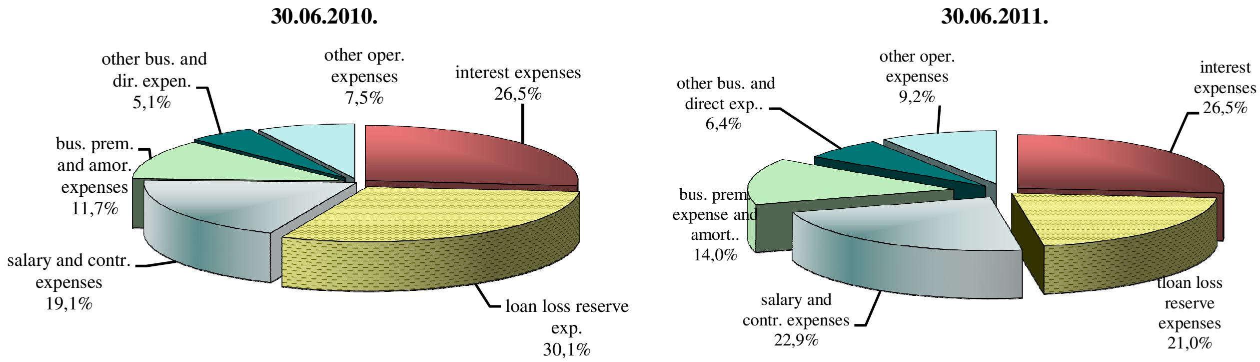


Table 26: *Structure of total expenses*

Structure of total expenses	30.06.2009.		30.06.2010.		30.06.2011.		RATIO	
	Amount	%	Amount	%	Amount	%	4/2	6/4
1	2	3	4	5	6	7	8	9
I Interest expenses and similar expenses								
Deposits	155.019	26,1	140.230	21,9	113.539	20,8	90	81
Liabilities for borrowings	41.825	7,0	21.931	3,4	22.775	4,2	52	104
Other interest expenses	11.644	2,0	7.708	1,2	8.088	1,5	66	105
TOTAL	208.488	35,1	169.869	26,5	144.402	26,5	81	85
II Total non-interest bearing expenses								
General loan risk and potential loan losses Provisioning	103.146	17,3	193.149	30,1	114.725	21,0	187	59
Salary expenses	126.943	21,4	122.521	19,1	125.421	22,9	97	102
Business premises and depreciation expenses	76.865	13,0	75.196	11,7	76.598	14,0	98	102
Other business and direct expenses	32.304	5,4	32.142	5,1	34.845	6,4	99	108
Other operating expenses	46.342	7,8	48.265	7,5	50.118	9,2	104	104
TOTAL	385.600	64,9	471.273	73,5	401.707	73,5	122	85
TOTAL EXPENSES (I + II)	594.088	100,0	641.142	100,0	546.109	100,0	108	85

Information on the Banking System of the Federation of BiH

Graph 20: *Structure of total expenses*



The following tables give the most significant ratios for evaluation of profitability, productivity and efficiency of banks:

- in %-

Table 27: *Ratios of profitability, productivity and effectiveness by periods*

RATIOS	30.06.2009.	30.06.2010.	30.06.2011.
Return on Average Assets	0,09	-0,44	0,32
Return on Average Total Capital	0,85	-4,10	2,76
Return on Average Equity	1,24	-5,81	4,05
Net Interest Income/Average Assets	1,74	1,68	1,86
Fee Income/Average Assets	0,93	0,96	1,14
Total Income/Average Assets	2,67	2,64	3,00
Operating and Direct Expanses23/Average Assets	0,90	1,47	1,00
Operating Expenses/Average Assets	1,66	1,61	1,68
Total Non-interest Expanses/Average Assets	2,56	3,08	2,68

-in %-

Table 28: *Ratios of profitability, productivity and effectiveness as of 30.06. 2011.*

RATIOS	30.06. 2011.		
	STATE BANKS	PRIVATE BANKS	AVERAGE IN FBiH
Return on Average Assets	0,26	0,32	0,32
Return on Average Total Capital	0,91	2,81	2,76
Return on Average Equity	1,25	4,14	4,05
Net Interest Income/Average Assets	1,33	1,87	1,86
Fee Income/Average Assets	2,23	1,12	1,14
Total Income/Average Assets	3,55	2,99	3,00
Operating and Direct Expanses/Average Assets	0,40	1,00	1,00
Operating Expenses/Average Assets	2,90	1,67	1,68
Total Non-interest Expanses/Average Assets	3,30	2,67	2,68

Based on the analyses of the core parameters for profitability quality evaluation, it can be concluded that the profitability of the overall system is much better, the profit realized in comparison to the high loss reported on the level of the system, resulted with positive key profitability indicators: ROAA (Return on Average Assets) is 0,32% and ROAE (Return on

23 Expenses include provisions for potential loan losses.

Average Equity) is 4,05% (the same indicators in the same period last year were negative due to the reported loss on the level of the system in the amount of 67,7 million KM) . Productivity of banks, measured as ratio of total income and average assets was improved in comparison to the same period last year (from 2,64% to 3,00%) due to growth of the total income (11%) while the average total assets slightly declined (2%). It should be emphasized that the business and direct expenses per average assets decreased (from 1,47% to 1,00%), which is related to the decline of loan loss provisions expenses.

Under a more deteriorated performance conditions of banks, and due to adverse effects of the economic and financial crisis to the banking sector in the FBiH, profitability of banks, in the forthcoming period, will mostly depend on deterioration of asset quality, that is, permanent increase of loan losses and loan risk, and will depend on effective management and operating income and expenses control. With an aim to improve the profitability, the banks will have to increase the level of lending activities, not only to ensure increase of interest income, but to utilize their social core function of the collected financial assets allocation to the economic flows and the economy in compliance with the standards of prudent performance and sound practices of risk management, primarily of credit risk.

In addition, profit of banks, that is, financial result will mostly depend on price and interest rate risk, both in the sources and price changes in funding sources of banks, and possibility to realize interest rate margin sufficient to cover all non-interest bearing expenses, and, eventually, to provide for satisfactory profit on the invested capital for bank owners. That is why the key factor is effectiveness and profitability of each bank's management quality and its business policy since this is the most direct way to affect its performance.

2.3. Risk-weighted nominal and effective interest rates

In order to increase transparency, and to make easy a comparability of conditions of banks in process of originating loans and accepting deposits and protection of customers through a transparent disclosure of loan expenses versus deposit income, and, in accordance with the international standards, criteria and practices in other countries, the FBA, as of 01.07.2007., prescribed unified method of computation and disclosure of effective interest rate[24]for all banks that have their seat in the Federation of BiH, and their organizational units, regardless of the territory in which they operate, including organizational units of the banks operating in the Federation of BiH. Effective interest rate represents a real relative price of a loan, that is, an income generated from a deposit, expressed as per cent at the annual level.

Effective interest rate is a discursive interest rate computed at the annual level. It applies a compound interest rate in a way to equal discounted cash inflows with discounted cash outflows for the originated loans, that is, accepted deposits.

Banks are obliged to monthly report to the FBA of risk-weighted nominal and effective interest rates on loans and deposits originated or accepted within the reporting month, in accordance with the methodology prescribed[25].

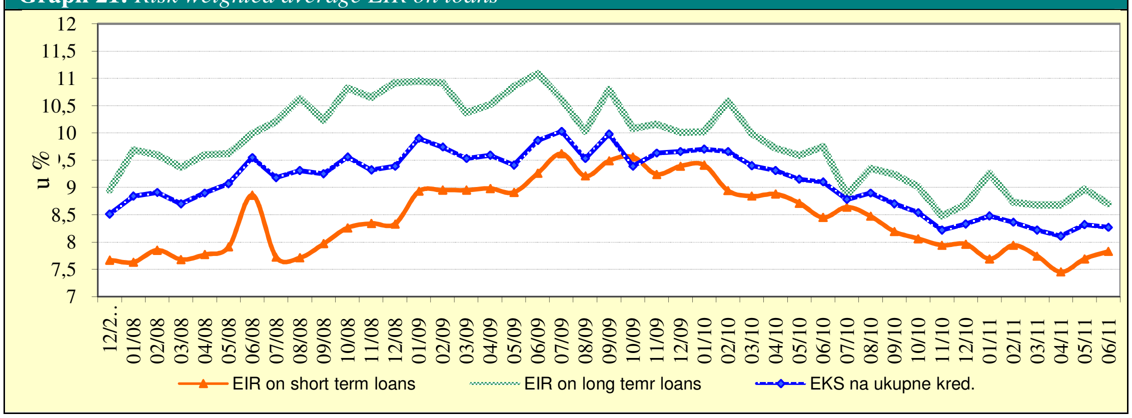
[24] Decision on unified method of computation and disclosure of effective interest rates on loans and deposits ("Official Gazette of the FBiH", number 27/07).
[25] Guidelines for implementation of Decision on unified method of computation and disclosure of effective interest rates on loans and deposits and Guidelines for computation of risk-weigthed nominal and effective interest rate.

The following table presents risk-weighted nominal and effective interest rates (hereinafter: NIR and EIR) for loans on the banking system level for the two most important sectors (economy and citizens) for December of 2009, March, June, September and December of 2009, and March and June of 2011:

Table 29 *Risk-weighted average NIR and EIR on loans*

DESCRIPTION	31.12.2009.		31.03.2010.		30.06.2010.		31.12.2010		31.03.2011.		30.06.2011.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Risk-weighted interest rates for short-term loans	8,55	9,39	8,28	8,84	7,9	8,45	7,51	7,96	7,18	7,74	7,24	7,83
1.1. Economy	8,51	9,27	8,22	8,63	7,86	8,34	7,47	7,82	7,15	7,63	7,19	7,68
1.2. Citizens	9,51	12,9	9,29	12,28	8,97	12,28	8,67	12,65	7,90	11,81	8,74	12,64
2. Risk-weighted interest rates for long-term loans	9,16	10,00	9,02	9,99	8,89	9,75	7,91	8,69	7,87	8,68	7,76	8,70
2.1. Economy	8,46	9,15	8,28	9,04	8,4	8,9	7,34	7,82	7,37	7,81	7,17	7,67
2.2. Citizens	10,21	11,32	9,65	10,8	9,35	10,56	8,79	10,05	8,49	9,57	8,16	9,39
3. Total risk-weighted interest rates for loans	8,82	9,66	8,64	9,40	8,40	9,10	7,72	8,33	7,54	8,22	7,50	8,27
3.1. Economy	8,50	9,23	8,24	8,76	8,04	8,53	7,42	7,82	7,22	7,69	7,68	7,18
3.2. Citizens	10,17	11,42	9,63	10,89	9,34	10,64	8,78	10,18	8,39	9,66	9,54	8,19

Graph 21: *Risk weighted average EIR on loans*



When analyzing the trend of interest rates, it is relevant to monitor risk-weighted EIR, while a difference in the risk-weighted NIR is exclusively the result of fees and provisions paid to banks for originated loans, which is included in the computation of the loan price. That is the reason why the EIR represents a real loan price.

The risk-weighted EIR for loans, in the first two quarters of 2011, recorded a slight declining trend. It is recording a continued decline in comparison to the level from December of 2011 of 8,33%, apart from a moderate increase in January (0,16%) and May (0,21%) and in June of 2011 was 8,27.

During the first half of 2011, higher oscillations are recorded by the EIR for long-term loans, within 0,58%, than the short term that oscillated within 0,51%.

The risk-weighted EIR for short-term loans, in June 2011, was 7,83%, which was lower by 0,13 per cent in comparison to December 2010.

The risk-weighted EIR for long-term loans, in June 2011, was 8,70%, which was higher by a slight 0,01 per cent in comparison to December 2010.

Interest rates for loans originated in the two most significant sectors: economy and citizens[26], over the observing period of 2011, had the same moving direction, that is a decreasing trend. The risk weighted EIR for loans originated in the economy, although still much lower than the EIR for loans to citizens, decreased from 7,82% in December 2010 to the level of 7,68% in June 2011.

Risk weighted EIR for loans granted to the economy, for both long term and short term loans, although oscillating recorded equal values, that is 7,58% and 7,67% in June 2011. As for long term economy loans, although it was oscillating within 0,72% and in comparison to December of 2010 decreased by 0,15%, while for short term loans oscillated within 0,53%, and recorded a decline of 0,14% in comparison to December of 2010.

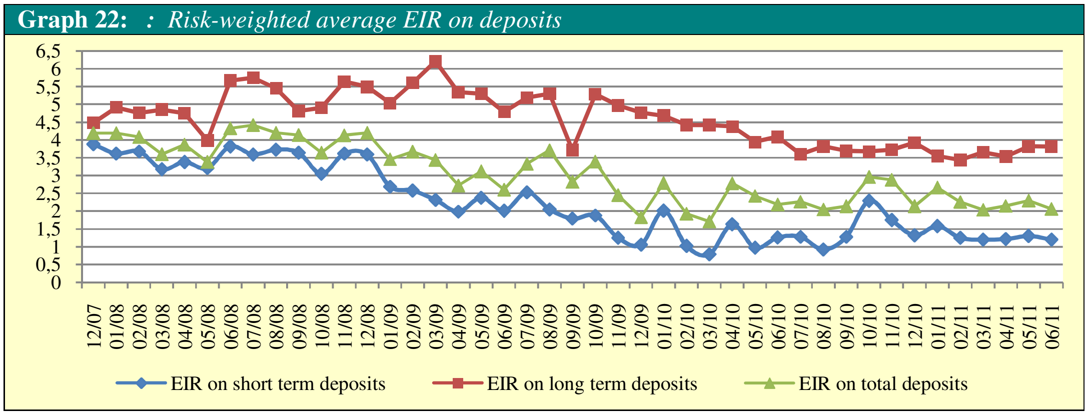
In the first half of 2011., the total EIR on loans to citizens had a decline trend for long term loans, and a growth trend for the short term loans. EIR on long term loans from the level in December of 2919 (of 10,05%) decreased in June of 2011 to 9,39%. In June the EIR on short term loans was 12,64%, which is by only 0,01% less than in December of 2010, with present oscillations of 1,82% during the first half of 2011.

Risk weighted NIR and EIR on time deposits accrued based on monthly reports are presented in the following table for the banking system:

Table 30: *Risk-weighted average NIR and EIR on deposits*

DESCRIPTION	31.12.2009.		31.03.2010.		30.06.2010.		31.12.2010.		31.03.2011.		30.06.2011.	
	NIR	EIR	NIR	EIR	NIR	NIR	EIR	NIR	EIR	NIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Risk-weighted interest rates on short term deposits	1,06	1,06	0,79	0,79	1,26	1,26	1,31	1,32	1,20	1,20	1,21	1,20
1.1. up to 3 months	0,72	0,72	0,45	0,45	0,39	0,39	0,97	0,97	0,96	0,96	1,01	1,01
1.2. up to 1 year	2,90	2,91	2,33	2,34	3,25	3,26	2,61	2,63	2,19	2,19	2,53	2,51
2. Risk-weighted interest rates on long term deposits	4,75	4,77	4,43	4,42	4,08	4,09	3,89	3,92	3,63	3,65	3,78	3,81
2.1. up to 3 years	4,72	4,74	4,3	4,29	3,86	3,87	3,78	3,80	3,55	3,56	3,64	3,65
2.2. over 3 years	5,12	5,13	5,18	5,19	5,45	5,47	4,48	4,57	4,18	4,26	4,52	4,61
3. Total risk-weighted interest rates on deposits	1,82	1,83	1,71	1,71	2,19	2,19	2,13	2,14	2,04	2,04	2,05	2,06

Graph 22: *: Risk-weighted average EIR on deposits*



26 Based on the methodology of classification in sectors: entrepreneurs are included in the sector of citizens.

As opposed to loans, where the real price is influenced by the expenses associated with loan origination and servicing (under condition they are known at the time of origination), deposits do not show almost any difference between nominal and effective interest rates.

If compared to December 2010, risk-weighted EIR for total term deposits, in June 2011, decreased by 0,08 per cent (from 2,14% to 2,06%). Risk-weighted EIR on short term deposits, after an increase of 0,26 percent points in January, had a slight declining trend and in June was 1,2%,(12/2010.: 1,32%). Risk-weighted EIR on long term deposits in comparison to December of 2010 recorded a downfall of 0,11 per cent and with somewhat higher oscillations during the first half of 2010 in June of 2011 was 3,81.

In EIR on long term deposits the most significant decrease were reported for EIR on economy deposits for up to three years (from 4,94% to 4,34%), while the largest increase was reported for deposits of banks and other financial institutions (from 3,57% to 4,35%).

In June of 2011., the banks paid interest at a significantly lower interest rates on deposits to economy (1,34%) than citizens (2,75%). EIR on economy deposits are lower in comparison to December of 2010 (EIR on economy deposits by 1,21% and citizens by 0,19%).

Risk-weighted interest rates for loans referring to the contracted overdraft and demand deposits, computed based on monthly statements, are presented in the following table:

Risk-weighted interest rates for loans referring to the contracted overdraft and demand deposits, computed based on monthly statements, are presented in the following table:

Table 31: *Risk-weighted average NIR and EIR on loans-overdrafts and demand deposits*

DESCRIPTION	30.06.2009.		31.12.2009.		30.06.2010.		31.12.2010.		30.06.2011.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11
1. Risk-weighted interest rates for loans-overdrafts	8,56	9,00	8,96	8,96	8,83	8,84	8,29	8,29	8,87	9,03
2. Risk-weighted interest rates for demand deposits	0,40	0,40	0,41	0,41	0,23	0,23	0,22	0,22	0,22	0,22

The EIR for the above items of assets and liabilities, in general, should be equal to the nominal interest rate. The risk-weighted EIR for total loans in overdrafts for the banking sector, in June of 2011, was 8,87% (an increase of 0,74 per cent in comparison to December 2010), and 0,21% for demand deposits, which was lower by 0,01 per cent in comparison to December 2010.

2.4. Liquidity

Liquidity risk management, along with credit risk, is one of the most compound and most important segments of banking operations. Maintaining liquidity in market economy is a permanent task of a bank and main precondition for its sustainability in financial market. This is also one of the key preconditions for establishment and maintenance of the confidence in the banking system of any country, as well as its stability and safety.

Under normal circumstances of banks' performance and stable environment, until the global financial and economic crisis occurred, liquidity risk has had a secondary significance, that is, credit risk was first priority and management systems established, that is, identification, measurement, and control of such risks were under continuous supervision with purpose of its enhancement and improvement. It should be emphasized, however, that during the course of its performance, a correlation of all risks that any bank is or may be exposed to is very high.

Along with turbulences in the financial market due to the global crisis, liquidity risk has rapidly increased and the risk management has become a key factor for normal operating of a bank, as well as timely meeting of past due liabilities and maintenance of a long term position of a bank in regard of its solvency and capital base.

In the last quarter of 2008 the liquidity risk increased after the expansion of the global crises and its adverse impact on the financial and economic system in BiH. Although a part of the savings was withdrawn and the trust in banks was impaired, it was evaluated that the banking system liquidity was not in danger in any given moment, since the banks in FBiH, due to regulatory requirements and proscribed limits, based on a conservative approach, had significant liquid funds and a good liquidity position.

In 2009 the adverse movements from the last quarter of 2008 were stopped, and general liquidity indicators were improved thanks to primarily decreased lending activity, with a tendency of slight deterioration in the 2010., and the first half of 2011., due to decrease of cash funds from slight increase of credit activities, investment in securities and payment of loan liabilities, as well as payment of the long term deposits in one bank during 2010, which had an impact on the deterioration of the maturity structure of the assets and liabilities items. The statement remains that liquidity of the banking system in the Federation of BiH is still good, with satisfactory participation of liquid assets in total assets and coverage of short term liabilities by liquid assets. However, since the financial crisis is still present worldwide which has an adverse reflection to the banking systems of certain European countries, and since majority of banks in FBiH are owned by the European banking groups that provide financial support to our banks through deposit and credit funding, it is estimated that liquidity risk still needs to be under enhanced supervision.

In addition, we should have in mind the fact that impact of the crisis is still present in the real sector, adverse consequences are being reflected to the entire economy environment under which banks operate in BiH, causing delinquency of debtors and increase of nonperforming claims, which is causing decrease in inflow of liquid assets of banks.

Decision on Minimum Standards for Liquidity Risk Management prescribes minimum standards a bank has to establish and maintain in the process of managing this risk, that is, minimum standards to create and implement liquidity policy, which assures bank's ability to fully and immediately perform its liabilities as they become due.

The mentioned regulation represents a framework for liquidity risk management and qualitative and quantitative provisions and requirements towards banks. It prescribes limits banks have to meet in regard to average ten-day minimum and daily minimum of cash assets in relation to short-term sources, as well as minimum limit of maturity adjustment of the instruments of financial assets and liabilities up to 180 days.

Liquidity risk is closely correlated with other risks and often has an adverse effect on banks' success and profitability.

In the structure of financing sources of banks in the Federation of BiH, as of 30.06.2011., deposits still have, although slightly decreased, the highest participation of 74,2%, followed by loans taken (including the subordinated debt[27]) with participation of 10,5% with longer maturity,

[27] Subordinated debt – loans taken and permanent liabilities.

representing quality source for long term placements, and have made a significant contribution to maturity match between assets and liabilities.

On the other hand, the structure of deposits is considerably unfavorable, and after a long period of improvements, has a slight trend of deterioration in 2010, and in the first half of 2011., the negative trend was stopped and the maturity structure slightly improved.

- in 000 KM-

Table 32: *Maturity structure of deposits*

DEPOSITS	31.12.2009.		31.12.2010.		30.06.2011.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Savings and demand deposits	4.490.845	40,7	5.054.335	45,0	5.009.205	44,6	113	99
Up to 3 months	322.763	2,9	344.926	3,1	368.919	3,3	107	107
Up to 1 year	833.089	7,5	1.085.115	9,6	838.828	7,5	130	77
1. Total short term	5.646.697	51,1	6.484.376	57,7	6.216.952	55,4	115	96
Up to 3 years	3.292.619	29,8	2.832.507	25,2	3.002.610	26,7	86	106
Over 3 years	2.106.552	19,1	1.915.947	17,1	2.011.665	17,9	91	105
2. Total long term	5.399.171	48,9	4.748.454	42,3	5.014.275	44,6	88	106
TOTAL (1 + 2)	11.045.868	100,0	11.232.830	100,0	11.231.227	100,0	102	100

Analysis of maturity structure of deposits in two main groups, if compared to 2010, evident is a slight improvement in the maturity, due to a decrease in participation of short term deposits by 2,3 per cent, and by the same percentage a decrease of long term deposits, so their participation, as of 30.06.2011., was 55,4% and 44,6% respectively.

The listed changes in the maturity structure are a result of the decrease of the short term deposits in the first quarter of 2011 by 4% or 267 million KM and a simultaneous increase of the long term deposits by 6% or 266 million KM.

The decrease of short term deposits was realized mostly from decreased deposits of up to one year by 23% or 246 million KM with a simultaneous decrease of participation from 9,6% to 7,5%, The demand deposits decreased by 1% or 45 million KM, and their participation decreased from 45% to 44,6%, while deposits of up to three months increased by 7% or 24 million KM with a slight increase of participation from 3,1% to 3,3%. Demand deposits have the same participation as the long term deposits of 44,6% in total deposits, while deposits up to three months have the lowest participation (3,3%). In total demand deposits, the highest participation is recorded by citizen deposits (41,9%), which, in comparison to 2010, have increased by 4% or 83 million KM.

Total long term deposits in 2011 have increased by 6% or 266 million KM. It should be emphasized that in long term deposits, two sectors show dominant participation: citizens with an increased participation from 51,6% to 52% and banking institutions with a decrease in participation from 27,4 to 26,7%. In the deposits of up to three years similar and almost the same participation of 67% have citizen deposits, while banking institutions' deposits over three years show the highest participation of 59,3% (60,9% at the end of 2010).

In the function of planning for the necessary level of liquid resources, banks have to plan for sources and structure of adequate liquidity potential, along with planning of credit policy. Maturity of placements, that is, credit portfolio is determined by maturity of sources. Since maturity transformation of assets in banks is inherently connected to the functional characteristics of banking performance, banks continuously control and maintain maturity imbalance between sources and placements within prescribed minimum limits.

-in 000 KM-

Table 33: *Maturity structure of loans*

LOANS	31.12.2009.		31.12.2010.		30.06.2011.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Past due claims and paid off-balance sheet liabilities	354.200	3,6	567.182	5,7	613.313	6,0	160	108
Short term loans	2.159.008	22,0	2.129.184	21,3	2.229.955	22,1	99	105
Long term loans	7.283.592	74,4	7.285.545	73,0	7.429.865	71,9	100	102
TOTAL LOANS	9.796.800	100,0	9.981.911	100,0	10.273.133	100,0	102	103

In the observed period in 2011., the long term loans increased by 2% or 144 million KM, short term loans recorded an increase of 5% or 101 million KM, while past due claims increased by 8% or 46 million KM, of which the largest amount, 33 million KM, refers to private companies. In the structure of past due claims, 77% are private companies, 19% are citizens, and 4% are other sectors.

Sector analysis by maturity, in two most significant sectors, indicates that loans to citizens represent 88,9% of long term loans, and loans to private companies, of total originated loans, represent 55,9% of long term loans.

In the assets structure, as the most significant category, loans still have the highest participation of 67,9%, which has increased by 1,7 per cent in comparison to the end of 2010 due to a slight growth of loans of 3% or 291 million KM. Cash funds decreased by 7% or 304 million KM and their participation, in comparison to the end of 2010., decreased from 29,5% to 27,4%.

In 2011, banks were regularly meeting a commitment to maintain required reserves with the Central Bank of BiH. The required reserve rate, as of 11.10.2008., decreased to 14% with purpose to enable additional liquidity for banks. In addition, with the same purpose, the CBBiH's decision has been to change basis of the required reserve's computation, so the funds borrowed from nonresidents, based on the contracts signed after 01.11.2008., would not be subject to the basis for computation. As of 01.01.2009., a differentiated required reserve rate has been introduced with regard to the maturity of sources (10% for long term and 14% for short term) and as of 01.05.2009., the rate for long term deposits and borrowings decreased to 7%. Required reserve, as significant instrument of monetary policy in BiH, under the Currency Board and financially underdeveloped market, represents the only instrument of monetary policy used to realize monetary control, in sense of stopping fast credit growth from the past years, and decrease multiplications, as well as an increase of banks' liquidity under an impact of the crisis and intensified outflow of funds from banks that in BiH was experienced after 01.10.2008. On the other hand, implementation of regulation on foreign exchange risk and maintenance of currency adjustment within prescribed limits, also significantly influence the amount of funds banks maintain on the reserve account with the Central Bank in domestic currency, which provides for high liquidity of individual banks and the banking sector.

In liquidity analysis, we use several ratios, and preview of the most significant ones is presented in the following table:

- in % -

Table 34: *Liquidity ratios*

RATIOS	31.12.2009.	31.12.2010.	30.06.2011.
1	2	3	4
Liquid assets[28] / Total assets	31,9	30,2	28,0
Liquid assets / Short term financial liabilities	54,2	50,8	48,4
Short term financial liabilities / Total financial liabilities	66,9	68,1	66,4
Loans / Deposits and Borrowings[29]	76,4	79,0	81,5
Loans / Deposits, borrowings and subordinate debts[30]	75,0	77,6	80,1

All banks continuously meet, considerably above the prescribed minimum, their obligation of a ten-day average of 20% on a comparable basis with the short term funding sources, and daily minimum of 10%, on the same basis, as presented in the following schedule.

- in 000 KM-

Table 35: *: Liquidity position – ten-day average and daily minimum*

	31.12.2009.	31.12.2010.	30.06.2011.	RATIO	
	Amount	Amount	Amount	3/2	4/3
1	2	3	4	5	6
1. Average daily balance of cash assets	3.789.107	3.887.490	3.707.111	103	95
2. Minimum total daily balance of cash assets	3.341.965	3.585.319	3.487.575	107	97
3. Short term sources (accrual basis)	5.431.143	6.128.941	6.219.197	113	101
4.Liabilities:					
4.1. ten-day average 20% of Item 3	1.086.229	1.225.788	1.243.839	113	101
4.2. daily minimum 10% of Item 3	543.114	612.894	621.920	113	101
5.Meeting requirement :ten-day average					
Surplus = Item 1 – Item 4.1.	2.702.878	2.661.702	2.463.272	98	93
6. Meeting requirement :daily minimum					
Surplus = Item.2 – Item 4.2.	2.798.851	2.972.425	2.865.655	106	96

Apart from the mentioned prescribed minimum standards, monitoring of remaining maturity of financial assets and liabilities, according to the time scale, is of crucial significance for the liquidity position analysis. The time scale is from the aspect of prescribed minimum limits created based on time horizon of up to 180 days.[31]

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28 Liquidity assets in the narrow sense: cash and deposits and other financial assets with maturity below three months, except inter-banking deposits.

29 Empiric standards: below 70%-very solid, 71%-75%-satisfactory, 76%-80%-marginal to satisfactory, 81%-85%-insufficient, over 85%-critical.

30 Prior ratio has been modified. Subordinated debts are included in the sources, which gives more realistic indicator.

31 Decision on Changes and Amendments to Decision on Minimum Standards for Liquidity Risk Management in Banks (Official Gazette of the FBiH, number 88/07) dated of 01.01.2008. sets new percentages for maturity matching between financial assets and liabilities: minimum 85% of funding sources (used to be 100%) with maturity up to 30 days must be engaged in placements with maturity up to 30 days; minimum 80% of funding sources (used to be 100%) with maturity up to 90 days in placements with maturity up to 90 days and minimum 75% of funding sources (used to be 95%) with maturity up to 180 days in placements with maturity up to 180 days.

- in 000 KM -

Table 36: *Maturity of financial assets and liabilities up to 180 days*

Description	31.12.2009. Amount	31.12.2010. Amount	30.06.2011. Amount	RATIO 3/2	RATIO 4/3
1	2	3	4	5	6
I. 1- 30 days					
1. Financial assets	5.719.878	5.674.836	5.502.000	99	97
2. Financial liabilities	5.070.291	5.816.147	5.632.146	115	97
3. Difference (+ or -) = 1-2	649.587	- 141.311	- 130.146	N/a	N/a
Accrual of requirement in %					
a) Performed %= Item 1 / Item 2	112,8%	97,6%	97,7%		
b) Required minimum %	85,0 %	85,0%	85,0%		
Surplus (+) or shortage (-) = a – b	27,8 %	12,6%	12,7%		
II. 1-90 days					
1. Financial assets	6.479.395	6.408.275	6.165.818	99	96
2. Financial liabilities	5.745.023	6.450.887	6.311.833	112	98
3. Difference (+ or -) = 1-2	734.372	- 42.612	-146.015	N/a	N/a
Accrual of requirement in %					
a) Performed %= Item 1 / Item.2	112,8 %	99,3%	97,7%		
b) Required minimum %	80,0%	80,0%	80,0%		
Surplus (+) or shortage (-) = a – b	32,8%	19,3%	17,7%		
III. 1-180 days					
1. Financial assets	7.469.752	7.343.882	7.234.170	98	99
2. Financial liabilities	6.956.965	7.509.597	7.081.656	108	94
3. Difference (+ or -) = 1-2	512.787	- 165.715	152.514	N/a	N/a
Accrual of requirement in %					
a) Performed %= Item 1 / Item.2	107,4%	97,8%	102,2%		
b) Required minimum %	75,0 %	75,0%	75,0%		
Surplus (+) or shortage (-) = a – b	32,4%	22,8%	27,2%		

Based on the presented data, we may conclude that banks, as of 30.06.2011., were able to meet the required limits, and have managed to realize better maturity match between financial assets and financial liabilities in relation to the limits prescribed. However, of concern is the fact that the maturity match reflect deterioration taken the significantly lower percentages of the surplus over the prescribed minimum, that is, as of 31.12.2010, for the first time in the last two years the amount of the financial liabilities is higher than the amount of the financial assets, in all three time intervals up to 180 days, which was significantly impacted by the return of the long term deposits to the parent bank before the maturity (just in the fourth quarter of 2010, about 219 million KM). During the first quarter of 2011 the amount of the financial liabilities in all three time intervals up to 180 days was higher than the amount of the financial assets, while in the second quarter there was a slight improvement and the financial assets in the interval up to 180 days were higher somewhat than the financial liabilities, mostly due to the increase of the items of loans and securities kept to maturity reported in the time interval up to 180 days, with a simultaneous decrease of the items of the financial liabilities, mostly liabilities from taken loans. Also, from the aspect of the remaining maturity there is a negative trend of increase of the participation of deposits with maturity up to seven days due to extensive growth of these deposits during 2010 (about 17%), which resulted in an increase of their participation with about 42% to around 48% in total deposits at the end of 2010., and as of 30.06.2011., their participation slightly decreased and was 46,5% and in compliance with the proscribed limits for the maturity match. In part, these funds finance the placements with longer maturities.

Based on all of the above presented indicators, it may be concluded that the negative movements from the last quarter of 2008 were stopped, that there was an improvement during 2009 and that there was a slight deterioration in 2010 that continued in 2011, so the liquidity of the banking system of the Federation of BiH is still assessed as satisfactory. Since this segment of performance and level of liquidity risk exposure correlates to credit risk, having in mind the effects of global financial crisis expansion in BiH and an impact to the banking sector of the FBiH (primarily through a stronger pressure on banks' liquidity), on one side, due to slower inflow of deposits and deterioration of the deposit maturity structure and, on the other side, poor inflow of liquid assets due to downfall in collection of loans and significantly lower borrowings from international financial institutions (which in the previous years was the best quality banks' funding source from the aspect of maturity) it should be emphasized that, in the forthcoming period, banks will have to pay more attention to the liquidity risk management by establishing and implementing liquidity policies, which will make sure that all matured liabilities of banks are timely realized, based on continuous planning of future liquidity needs, and taking into account changes in operating, economic, regulatory and other segments of business environment of banks.

The FBA will, both through reports and on-site examinations of banks, monitor how banks manage this risk, and whether they act in accordance with the adopted policies and programs

2.5. Foreign exchange risk – foreign currency matching between assets and liabilities from balance sheet and off-balance sheet items

In their operations, banks are exposed to significant risks coming from potential losses in balance sheet and off-balance sheet items created as a result of price changes in the market. One of those risks is foreign exchange risk (FX) created as a result of changes of exchange rates and/or the imbalance in assets, liabilities and off-balance sheet items of the same currency – individual foreign currency position or all currencies together used by a bank in its operations – overall foreign currency position of a bank.

In order to enable application and implementation of prudential principles in foreign exchange activities of banks and to decrease influence of foreign exchange risk to their profitability, liquidity and capital, the FBA has issued Decision on Minimum Standards for Foreign Exchange Risk Management in Banks[32] that regulates minimum standards for adoption and implementation of programs, policies and procedures for undertaking, monitoring, control and management of foreign exchange risk, and restrictions prescribed for opened individual and overall foreign exchange position (long or short), calculated in relation to the amount of bank's core capital. [33]

The banks are obliged to report on daily basis to FBA so that FBA can monitor the banks compliance with the prescribed limits and the exposure to the foreign currency risk. Based on examination, monitoring and analysis of submitted reports on foreign currency position of banks, we can conclude that banks meet prescribe limits and perform their FX activities within these limits.

Since the Central Bank functions as the Currency Board and EUR is an anchor currency of the Currency Board, in practice banks are not exposed to foreign exchange risk in case of the most significant currency EUR.

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[32] "Official Gazette of F BiH", Number. 3/03, 31/03, 64/03, 54/04.

[33] Article 8 of Decision on Minimum Standards for Capital Management of Banks determines limits for individual foreign currency position in EUR up to 30% of core capital, for other currencies up to 20% and foreign currency of a bank up to 30%.

According to the balance as of 30.06.2011., currency structure of banks' assets on the level of banking system recorded participation of items in foreign currencies of 14,6% or 2,2 billion KM (14,8% or 2,2 billion KM at the end of 2010). On the other hand, currency structure of liabilities is essentially different, since participation of liabilities in foreign currency is significantly higher and it amounts to 53,2% or 8,0 billion KM (53,6% or 8,1 billion KM at the end of 2010).

The following table presents structure and trend of financial assets and liabilities and foreign currency position for EUR as the most significant currency[34] and total.

- In million KM-

Table 37: *Foreign currency adjustment of financial assets and liabilities (EUR and total*

Description	31.12.2010.				30.06.2011.				RATIO	
	EURO		TOTAL		EURO		TOTAL		EURO	TOTAL
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	6/2	8/4
1	2	3	4	5	6	7	8	9	10	11
I. Financial assets										
1. Cash assets	1.195	14,6	1.637	18,0	1.121	13,8	1.572	17,5	94	96
2. Loans	72	0,9	104	1,1	59	0,7	85	0,9	82	82
3.Loans with currency clause	6.508	79,6	6.868	75,5	6.455	79,5	6.785	75,4	99	99
4. Other	401	4,9	489	5,4	488	6,0	559	6,2	122	114
Total (1+2+3+4)	8.176	100,0	9.098	100,0	8.123	100,0	9.001	100,0	99	99
II. Financial liabilities										
1. Deposits	5.552	71,6	6.424	74,1	5.560	71,6	6.392	74,0	100	100
2. Borrowings	1.328	17,1	1.363	15,7	1.302	16,8	1.332	15,4	98	98
3.Deposits and loans with currency clause	584	7,5	584	6,8	594	7,6	594	6,9	102	102
4.Other	288	3,8	296	3,4	309	4,0	322	3,7	107	109
Total (1+2+3+4)	7.752	100,0	8.667	100,0	7.765	100,0	8.640	100,0	100	100
III. Off-balance sheet										
1.Assets	26		28		32		44			
2.Liabilities	435		438		218		219			
IV.Position										
Long (amount)	16		21		173		186			
%	1,0%		1,3%		10,7%		11,5%			
Short										
%										
Limit	30%		30%		30%		30%			
Below limit	29,0%		28,7%		19,3%		18,5%			

If we analyze the structure of foreign currencies in the financial assets[35] we see a dominant participation of EUR of 75,3, which increased somewhat in comparison to the participation as of 31.12.2010. (74,8%) with the same nominal amount of 1,7 billion KM. Participation of EUR in the liabilities has slightly decreased from 88,7% to 89,1%, maintaining the nominal amount at almost the same level of 7,2 billion KM.

However, calculation of the FX risk exposure also includes the amount of indexed items of assets (loans) and liabilities[36], which are especially significant in the assets (75,4% or 6,8 billion

[34] Source: Form 5-Foreign currency position.

[35] Source: Form 5-Foreign currency position: portion of financial assets (in foreign currencies denominated in KM). According to the methodology, financial assets are expressed based on net principle (reduced by loan loss reserves).

[37] In order to protect from changes of the exchange rate banks contract certain items of assets (loans) and liabilities with currency clause (regulation allow only two-way currency clause).

KM) this is slightly lower in relation to 31.12.2010. (75,5% or 6,9 billion KM). Other foreign currency assets items represent 24,6% or 2,2 billion KM, of which EUR items make 18,5% or 1,7 billion KM, and other currencies 6,1% or 0,5 billion KM (at the end of 2010, loans contracted with currency clause amounted to KM 6,9 billion with participation of 75,5%, and other items in EUR of 18,3% or 1,7 billion KM). Of total net loans (9,6 billion KM), 70,7% were contracted with currency clause, primarily tied to EUR (95,1%).

On the other hand, the structure of financial liabilities stipulates and determines the structure of financial assets, for each currency individually. In foreign currency liabilities (8,6 billion KM) items in EUR (primarily deposits) had the highest participation of 83,0% or 7,2 billion KM, while participation and amount of indexed liabilities was at minimum, amounting to 6,9% or 0,6 billion KM (at the end of 2010, participation of liabilities in EUR was 82,7% or 7,2 billion KM, while indexed liabilities were 6,8% or 0,6 billion KM).

Observed by banks and overall on the level of the banking system of the FBiH, we can conclude that foreign exchange risk exposure of banks and the system, in the first quarter of 2011, ranged within the prescribed limits. As of 30.06.2011., there were 15 banks with long foreign currency position, and four banks with short position. At the system level, long foreign currency position represented 11,5% of banks' core capital, which is lower by 18,5% than the limit. Individual foreign currency position for EURO was at 10,7%, with financial assets items being higher than financial liabilities (long position), representing a decline of 19,3% than the limit.

Although in the environment of the Currency Board banks are not exposed to foreign exchange risk in the most significant currency EUR, they are still required to operate within prescribed limits for individual currencies and for total foreign currency position and to daily manage this risk in accordance with adopted programs, policies, procedures and plans.

IV CONCLUSIONS

Banking sector of the Federation of BiH during the period of implementation of the reform has reached an enviable level. The upcoming activities should be aimed at preserving its stability as priority task in the current stressful conditions, and its further progress and development. These goals require continuous and vigilant engagement of all parts of the system, legislative and executive authorities, which is a prerequisite to create the most favorable economic environment that would be stimulating to both banks and consequently to the real sector of the economy and citizens.

In the upcoming period, the Banking Agency of the Federation of BiH shall:

- Take measures and activities within its powers to overcome and mitigate adverse effects to the banking sector of the FBiH caused by the global financial crisis,
- Continue implementing activities, from the scope of its authority, to consolidate supervision on state level,
- Proceed with a continues supervision of banks through on-site and off-site examinations, focusing on targeted examination of dominant risk segments of banking operations, which will make supervision more effective, in regard to:
  - Persist on capital strengthening of banks, especially those recording outstanding assets growth and decrease of capital adequacy ratio,
  - Continue permanent monitoring of banks, primarily those with systemic importance to development of credit activities with the highest concentration of savings and other

deposits in order to protect depositors,

- Continue a systematic monitoring of banks' activities in prevention of money laundering and terrorism financing and improve cooperation with other supervisory and examination institutions,
- Maintain continuity in payment system examinations,
- Continue working on further development of regulation based on the Basle Principles, the Basle Capital Accord, and the European Banking Directives, as part of BiH's preparation to join the European Union,
- Establish and expand cooperation with home country supervisors of the investors present in the banking sector of the FBiH, and other countries in order to have more effective supervision,
- Improve cooperation with the Banks Association in all banking performance segments, organization of counseling and professional assistance in the area of implementation of banking laws and regulations, advancement of cooperation in regard to professional development, proposed changes of all legislative regulations that have become a limiting factor to banks' development, introduction of new products, collection of claims and fully involve in building up and functioning of the unified registry of irregular debtors – legal entities and citizens, with daily data update.

• Continuous operational development of the IT system for early warning and prevention in elimination of weaknesses in banks;
• Work on continuous education and training of staff;
• Make effort to accelerate finalization of the remaining provisional administrations and liquidations based on the conclusion made by the Management Board;
• Particularly, accelerate resolution of unsettled issues with the Government of BiH in relation to the Provisional Administration of Hercegovačka Bank d.d. Mostar related to terminal Dretelj.

In addition, it is necessary to have stronger involvement of other authorized institutions and bodies of Bosnia and Herzegovina and the Federation of BiH in order to:

• Realize Program of measures to mitigate effects of the global economic crisis and improve the business environment, as accepted by the Economic Social Council in the territory of the FBiH in December 2008, pursuant to the document issued by the FBiH Government;
• Realize the conclusion made by the Federation of BiH Parliament to establish banking supervision on state level;
• Form an opinion about status of banks owned by the Federation of BiH;
• Create and further develop the financial sector regulation related to the activity, status and performance of micro-credit organizations, leasing companies, insurance companies, etc.;
• Accelerate implementation of economic reform in the real sector in order to reach the level of the monetary and banking sector;
• Prepare for creation of legislative regulation for the banking sector and financial system based on the Basle Principles, the Basle Capital Accord, and the European Banking Directives,
• Establish specialized court departments for economy,
• Establish more efficient process for realization of pledges,
• Adopt law on protection of creditors and full responsibility of debtors,
• Adopt law or improve existing legislation regulating the area of safety and protection of money in banks and in transportation.

Banks, as the most important part of the system, have to concentrate their actions to:

• Full dedication to good quality and prudent performance, and actions to cope with the crisis impact that presently represents the greatest danger for banks and the real sector of the economy and citizens;

- Further capital strengthening and level of solvency proportional to the growth of assets and risk, higher profitability, more consistent implementation of adopted policies and procedures in the area of prevention of money laundering and terrorism financing, and safety and protection of money in banks and in transportation, in accordance with laws and regulations;
- Strengthen internal control systems and internal audit functions as fully independent in performing their duties and roles;
- Regular, updated and accurate submission of data to the Central Loan Registry and Unified Central Account Registry with the Central Bank of BiH.

Number: U.O.- 33-2/11
Sarajevo, 06.09.2011.

ATTACHMENTS

ATTACHMENT 1

Banks in the Federation of Bosnia and Herzegovina - 30.06.2011.

No.	BANK	Address		Telephone	Director
1	BOSNA BANK INTERNATIONAL dd - SARAJEVO	Sarajevo	Trg djece Sarajeva bb	033/275-100, fax:203-122	AMER BUKVIĆ
2	BOR BANKA dd - SARAJEVO	Sarajevo	Obala Kulina bana 18	033/663-500, fax:278-550	HAMID PRŠEŠ
3	HERCEGOVAČKA BANKA dd - MOSTAR	Mostar	Nadbiskupa Čule bb	036/332-901, fax:332-903	Proviisonal administrator- Nikola Fabijanić - 16.04.2007.
4	HYPO ALPE-ADRIA-BANK dd - MOSTAR	Mostar	Kneza Branimira 2b	036/444-444, fax:444-235	MICHAEL VOGT
5	INVESTICIONO-KOMERCIJALNA BANKA dd - ZENICA	Zenica	Trg B&H 1	032/448-400, fax:448-501	SUVAD IBRANOVIĆ
6	INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	Sarajevo	Obala Kulina bana 9a.	033/497-555, fax:497-589	ALMIR KRKALIĆ
7	KOMERCIJALNO-INVESTICIONA BANKA DD V.KLADUŠA	V.Kladuša	Ibrahima Mržljaka 3	037/771-253, fax:772-416	HASAN PORČIĆ
8	MOJA BANKA dd - SARAJEVO	Sarajevo	Kolodvorska br. 5.	033/720-070, fax:720-100	OGNJEN SAMARDŽIĆ
9	NLB TUZLANSKA BANKA dd - TUZLA	Tuzla	Maršala Tita 34	035/259-259, fax:250-596	ALMIR ŠAHINPAŠIĆ
10	POŠTANSKA BANKA BiH dd - SARAJEVO	Sarajevo	Put zivota 2.	033/564-000, fax: 564-050	Prov. administrator - Stjepan Jovičić - 05.10.2010.
11	PRIVREDNA BANKA SARAJEVO dd - SARAJEVO	Sarajevo	Alipašina 6	033/277-700, fax:664-175	Acting Director - Azemina Golo
12	PROCREDIT BANK dd - SARAJEVO	Sarajevo	Emerika Bluma 8.	033/250-950, fax:250-971	FRIEDER WOEHRMANN
13	RAIFFEISEN BANK dd BiH - SARAJEVO	Sarajevo	Zmaja od Bosne bb.	033/755-010, fax: 213-851	MICHAEL MÜLLER
14	RAZVOJNA BANKA FEDERACIJE BIH	Sarajevo	Igmanska 1	033/277-900, fax: 668-952	RAMIZ DŽAFEROVIĆ
15	SPARKASSE BANK dd - SARAJEVO	Sarajevo	Zmaja od Bosne br. 7.	033/280-300, fax:280-230	SANEL KUSTURICA
16	TURKISH ZIRAAT BANK BOSNIA dd - SARAJEVO	Sarajevo	Dženetića Čikma br. 2.	033/252-230, fax: 252-245	KENAN BOZKURT
17	UNICREDIT BANK dd - MOSTAR	Mostar	Kardinala Stepinca bb	036/312-112, fax:312-121	BERISLAV KUTLE
18	UNION BANKA dd - SARAJEVO	Sarajevo	Dubrovačka 6	033/561-000, fax: 201-567	ESAD BEKTEŠEVIĆ
19	VAKUFSKA BANKA dd - SARAJEVO	Sarajevo	M. Tita 13.	033/280-100, fax: 663-399	AMIR RIZVANOVIĆ
20	VOLKSBANK BH dd - SARAJEVO	Sarajevo	Fra Anđela Zvizdovića 1	033/295-601, fax:295-603	REINHOLD KOLLAND

ATTACHMENT 2

BALANCE SHEET OF BANKS IN THE FBiH - FBA SCHEDULE
ACTIVE SUB-BALANCE SHEET

in 000 KM

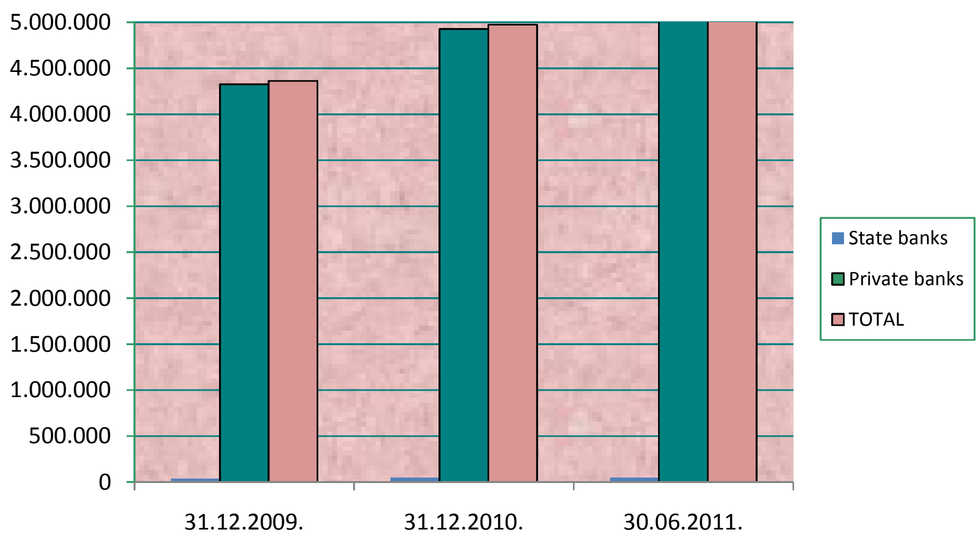
No.	DESCRIPTION	31.12.2009.	31.12.2010.	30.06.2011.
	ASSETS			
1.	Cash funds and deposit accounts at depository institutions	4.782.301	4.443.614	4.140.085
1a	Cash and non-interest deposit accounts	490.171	452.188	442.140
1b	Interest deposit accounts	4.292.130	3.991.426	3.697.945
2.	Trading securities	12.884	233.178	272.388
3.	Placements in other banks	111.019	145.007	190.274
4.	Loans, receivables in leasing and past due receivables	9.796.800	9.981.911	10.273.133
4a	Loans	9.442.455	9.414.597	9.659.694
4b	Receivables on leasing	145	132	126
4c	Past due receivables - loans and leasing	354.200	567.182	613.313
5.	Securities held until maturity	106.273	142.074	145.812
6.	Premises and other fixed assets	503.157	521.625	513.725
7.	Other real estate	25.753	31.139	36.098
8.	Investments in non-consolidated related enterprises	42.693	44.753	43.377
9.	Other assets	336.287	193.609	212.188
10.	MINUS: Reserves for potential losses	480.807	661.213	700.063
10a	Reserves on item 4 in Assets	458.803	635.792	672.488
10b	Reserves on Assets except item 4	22.004	25.421	27.575
11.	**TOTAL ASSETS**	15.236.360	15.075.697	15.127.017
	LIABILITIES	0	0	0
12.	Deposits	11.045.868	11.232.830	11.231.227
12a	Interest deposits	10.180.008	10.134.101	10.203.263
12b	Non-interest deposits	865.860	1.098.729	1.027.964
13.	Loans - past due	2.744	1.723	1.703
13a	Balance of payable loans, unpaid	0	0	0
13b	Unpaid - called for payment off-balance sheet items	2.744	1.723	1.703
14.	Loans from other banks	3.089	7.000	2.000
15.	Payables to Government	0	0	0
16.	Payables on loans and other borrowings	1.771.978	1.403.451	1.378.132
16a	payable within one year	678.608	381.305	306.507
16b	payable longer than one year	1.093.370	1.022.146	1.071.625
17.	Subordinated debts and subordinated bonds	250.483	226.847	214.545
18.	Other liabilities	484.500	507.221	547.793
19.	**TOTAL LIABILITIES**	13.558.662	13.379.072	13.375.400
	C A P I T A L	0	0	0
20.	Permanent priority shares	25.028	25.028	26.060
21.	Common shares	1.145.627	1.148.269	1.163.889
22.	Shares issued	143.725	136.485	136.485
22a	Permanent priority shares	8.420	8.420	8.420
22b	Common shares	135.305	128.065	128.065
23.	Undistributed income and capital reserves	358.480	489.557	377.102
24.	Currency rate difference	0	0	0
25.	Other capital	4.838	-102.714	48.081
26.	**TOTAL CAPITAL (20. TO 25.)**	1.677.698	1.696.625	1.751.617
27.	**TOTAL LIABILITIES AND CAPITAL (19+26)**	15.236.360	15.075.697	15.127.017
	PASSIVE AND NEUTRAL SUBBALANCE	**622.094**	**659.059**	**637.529**
	TOTAL BALANCE SHEET IN BANKS	**15.859.732**	**15.734.756**	**15.764.546**

ATTACHMENT 3

NEW CITIZEN SAVINGS BY PERIODS IN THE BANKS IN FBiH

in ' 000 KM

	31.12.2009.	31.12.2010.	30.06.2011.
State banks	35.275	47.148	48.090
Private banks	4.325.928	4.926.361	5.068.416
TOTAL	**4.361.203**	**4.973.509**	**5.116.506**



ATTACHMENT 4

CLASSIFICATION OF ASSETS AND OFF-BALANCE SHEET RISK ITEMS IN BANKS IN FBiH
As of 30.06.2011.

- ACTIVE BALANCE SHEET -

in '000 KM

No.	BALANCE SHEET ASSETS AND OFF-BALANCE SHEET ITEMS	CLASIFICATION					TOTAL
		A	B	C	D	E	
1.	Short-term loans	1.866.309	336.209	25.564	1.873	0	2.229.955
2.	Long-term loans	6.031.383	896.584	341.801	160.097	0	7.429.865
3.	Other placements	393.053	227	98	760	2	394.140
4.	Interest accrued	40.205	13.688	1	0	3	53.897
5.	Past due receivables	63.212	68.924	156.443	324.467	0	613.046
6.	Receivables on guarantees paid	99	70	98	0	0	267
7.	Other assets	5.085.529	9.706	4.870	1.957	3.847	5.105.909
8.	**TOTAL ACTIVE BALANCE SHEET**	**13.479.790**	**1.325.408**	**528.875**	**489.154**	**3.852**	**15.827.079**
9.	a) Guarantees payable	325.692	60.913	469	261	0	387.335
	b) Performing guarantees	486.305	95.407	907	1.018	189	583.826
10.	Unsecured LoC	51.072	14.622	2	0	0	65.696
11.	Irrevocable loans	1.329.924	48.520	3.714	593	0	1.382.751
12.	Other potential liabilities	22.675	2.034	0	116	0	24.825
13.	TOTAL OFF-BALANCE SHEET	**2.215.668**	**221.496**	**5.092**	**1.988**	**189**	**2.444.433**
14.	TOTAL BALANCE AND OFF-BALANCE SHEET (8+13)	**15.695.458**	**1.546.904**	**533.967**	**491.142**	**4.041**	**18.271.512**
15.	General credit risk and potential loan losses (#14 x % of loss)	218.912	131.879	128.361	278.064	4.038	761.254
16.	Allocated general reserves (A) and special reserves (B, C, D, E)	218.956	131.879	128.361	278.064	4.037	761.297
17.	**MORE (LESS) of the allocated reserves (#16 - 15) +or -**	**44**	**0**	**0**	**0**	**-1**	**43**

ATTACHMENT 5

INCOME STATEMENT

in '000 KM

ELEMENTS	PERFORMED **30.06. 2010.**		PERFORMED **30.06.2011.**		RATIO 4 : 2
	Amount	Partic.in total income	Amount	Partic. in total income	
INCOME					
Interest income	426.463	106%	423.615	94%	99
Interest expenses	169.869	42%	144.402	32%	85
Net interest income	256.594	64%	279.213	62%	109
Fee income and other operating income	147.002	36%	170.181	38%	116
TOTAL INCOME	403.596	100%	449.394	100%	111
EXPENSES					
Reserves for potential losses	193.149	48%	114.725	25%	59
Salaries and contribution expenses	122.521	30%	125.421	28%	102
Fixed assets and overhead expenses	75.196	19%	76.598	17%	102
Other expenses	80.407	20%	84.963	19%	106
TOTAL EXPENSES (without interests)	471.273	117%	401.707	89%	85
NET INCOME BEFORE TAX	-67.677		47.687	11%	N/A
Income Tax	-39		-20		
NET INCOME	-67.716		47.667	11%	N/A

ATTACHMENT 6

COMPARATIVE SCHEDULE OF CAPITAL BALANCE AND ADEQUACY IN BANKS IN FBiH
ACTIVE SUB-BALANCE SHEET

'000 KM

No.	DESCRIPTION	31.12.2009.	31.12.2010.	30.06.2011.
1	**BANK'S CORE CAPITAL**			
1.a.	Share capital, reserves and income			
1.1.	Share capital - common and perm. priority non-cumulat. shares - cash payments	1.155.790	1.157.918	1.174.308
1.2.	Share capital - comm. and perm. prior. non-cumul. shares-invested posses. And rights	12.550	12.550	12.550
1.3.	Issued shares income at share payments	143.725	136.485	136.485
1.4.	General regulatory reserves (reserves as regulated by the Law)	78.317	183.807	189.462
1.5.	Other reserves not related to assets quality assessment	201.758	228.867	261.951
1.6.	Retained - undistributed income from previous years	161.562	165.532	175.669
1.a.	**TOTAL (from 1.1. to 1.6.)**	**1.753.702**	**1.885.159**	**1.950.425**
1.b.	Offsetting items from 1.a.			
1.7.	Uncovered losses transferred from previous years	82.324	92.058	249.573
1.8.	Losses from current year	52.966	157.933	17.161
1.9.	Book value of treasury shares owned by the bank	595	81	81
1.10.	Amount of intangible assets	63.119	63.249	62.415
1.b.	**TOTAL (from 1.7.to 1.10.)**	199.004	313.321	**329.230**
1.	**AMOUNT OF CORE CAPITAL: (1.a.-1.b.)**	**1.554.698**	**1.571.838**	**1.621.195**
2	**BANK'S SUPPLEMENTARY CAPITAL**			
2.1.	Share capital - common and perm. priority non-cumulat. shares - cash payments	2.829	2.829	3.090
2.2.	Share capital - comm. and perm. prior. non-cumul. shares-invested posses. And rights	0	0	0
2.3.	General reserves for losses on loans from class. A - performing assets	205.254	209.612	218.956
2.4.	Accrued income for current year audited and confirmed by external auditor	49.186	52.090	0
2.5.	Income under FBA's temporary restriction on distribution	0	0	0
2.6.	Subordinated debts, the most 50% of core capital	184.093	159.056	148.146
2.7.	Hybrid convertible items - the most 50% of core capital	0	0	0
2.8.	Items-permanent liabilities without repayment duty	66.390	66.399	61.475
2.	**AMOUNT OF SUPPLEMENTARY CAPITAL: (from 2.1. to 2.8.)**	**507.752**	**489.986**	**431.667**
3	**OFFSETTING ITEMS FROM BANK'S CAPITAL**			
3.1.	Part of invested share capital that according to FBA's assessment represents accepted and overestimated value	0	0	0
3.2.	Investments in capital of other legal entities exceeding 5% of bank's core capital	16.036	15.938	15.938
3.3.	Receivables from shareholders for significant voting shares - approved aside from regulations	0	0	0
3.4.	VIKR to shareholders with significant voting shares in the bank without FBA's permission	0	0	0
3.	**AMOUNT OF OFFSETTING ITEMS FROM BANK'S CAPITAL (3.1. to 3.4.)**	**16.036**	**15.938**	**15.938**
A.	**AMOUNT OF BANK'S NET CAPITAL (1.+2.-3.)**	**2.046.414**	**2.045.886**	**2.036.924**
B.	**RISK FROM RISK-WEIGHTED ASSETS AND CREDIT EQUIVALENTS**	**11.790.234**	**11.713.116**	**12.067.737**
C.	**POR (RISK-WEIGHTED OPERATING RISK)**	**882.928**	**942.707**	**965.932**
D.	**PTR (RISK-WEIGHTED MARKET RISK)**	0	0	0
E.	**TOTAL RISK-WEIGHTED RISKS B+C+D**	**12.673.162**	**12.655.823**	**13.033.669**
F.	**NET CAPITAL RATE (CAPITAL ADEQUACY) (A.:B.) X 100**	**16,4%**	**16,2%**	**15,6%**

ATTACHMENT 7

NUMBER OF EMPLOYEES BY BANKS

No.	BANK	31.12.2009.	31.12.2010.	30.06.2011.
1	BOR BANKA dd SARAJEVO	51	54	56
2	BOSNA BANK INTERNATIONAL dd Sarajevo	185	207	217
3	HERCEGOVACKA BANKA dd MOSTAR	77	75	74
4	HYPO ALPE ADRIA BANK dd MOSTAR	600	568	605
5	INTESA SANPAOLO BANKA dd BiH	514	519	517
6	INVESTICIONO KOMERCIJALNA BANKA dd ZENICA	174	178	173
7	KOMERCIJALNO INVESTICIONA BANKA dd VELIKA KLADUŠA	68	67	70
8	MOJA BANKA dd SARAJEVO	133	143	160
9	NLB TUZLANSKA BANKA dd TUZLA	473	474	471
10	POŠTANSKA BANKA dd SARAJEVO	111	91	89
11	PRIVREDNA BANKA dd SARAJEVO	195	211	191
12	PROCREDIT BANK dd SARAJEVO	662	501	449
13	RAIFFEISEN BANK BH dd SARAJEVO	1.669	1.630	1.616
14	SPARKASSE BANK dd SARAJEVO	426	426	432
15	TURKISH ZIRAAT BANK dd SARAJEVO	152	150	155
16	UNA BANKA dd BIHAĆ	56	-	-
17	UNI CREDIT BANKA BH dd MOSTAR	1.389	1.362	1.352
18	UNION BANKA dd SARAJEVO	175	180	180
19	VAKUFSKA BANKA dd SARAJEVO	212	222	226
20	VOLKSBANK BH dd SARAJEVO	334	330	332
	TOTAL	**7.656**	**7.388**	**7.365**